

FINANCIAL TIMES



EU enlargement Long wait to join the club

Budget crunch What if the

US defaults? Samuel Brittan, Page 16



TV advertising Stars shine in Japan



Today's surveys Derivatives Europe's entrepreneurs Separate Sections

Nigerian gas plant French PM unveils welfare shake-up says Shell group

The plan by a consortium led by Shell to build a liquefied natural gas plant in Nigeria will go ahead although financing for the \$3.6bn project has not been finalised, the companies said. The project has been the source of controversy since last week's and other than the project has been the source of controversy since last week's and other than the source of the source of the same which is blooming of the same which and other than the source of the same which is blooming that the source of the same which is blooming that the same which is the sa execution in Nigeria of Ken Saro-Wiwa and other human rights activists. Page 18

Apoc close to free trade deal: The 18 governments of the Asia Pacific Economic Co-operation forum are near to agreement on a compromise plan to eliminate all harriers to trade by 2020. The compromise would allow flexible treatment for opening markets in sensitive sectors. Page 18; Editorial Comment, Page 17

HK hits at Chinese civil rights plan: Hong Kong'a Legislative Council condemned Beijing'a plans to water down civil rights laws after its 1997 takeover of the colony. Page 8

Russia hints at Chinese security pact: Russia hinted it might try to draw China into a new anti-western security bloc if Nato went ahead with plans to expand eastwards. Page 4

Lloyd's chief executive resigns: Peter Middleton resigned as chief executive of the Lloyd's of London insurance market and is to take up a senior management role at Salomon Brothers, the investment bank. Page 10

Sterling sinks to record lows: The pound sank to a record low as figures showed a rise in unemployment and the biggest fall in UK living standards for nearly 14 years. Page 18

Telecom Italia faces rival: France Télécom, Italy's Olivetti and Bell Atlantic of the US are to join forces in the Italian telecoms market with the aim of becoming the main rival to state-controlled Telecom Italia. Page 19; Seeking strength in unity, Page 21; Lex, Page 18; KU clears lines for telecom

Unilever names next UK chairman



Niall FitzGerald, head of Unilever's global detergent business during last year's controversial failure of Persil and Omo gents, is to be the next chairman of the UK arm sumer goods company. Unilever is still spending heavily on advertising and marketing to claw

back market share lost by Persil and Omo and Mr FitzGerald is expected to instigate sweeping George Wimpey and Tarmac, two of the UK

construction sector's largest companies, revealed plans to swap their housebuilding, building materials and construction divisions. Page 25; Lex comment, Page 26

Fund for EU film industry: The European Commission launched an Ecu200m (\$262m) fund to bolster film productions from well-established companies in the European Union. Page 3

Warning on sugar fraud: An upsurge in international sugar fraud could be costing companies in developing and Eastern European countries up to \$400m. Page 19

Czech oli investment agreed: Three western oil companies - Agip of Italy, Conoco of the US and Royal Dutch/Shell - signed an agreement on a \$480m investment in the Czech Republic's oil refining industry. Page 19 Australia set for industrial unrest: Australia was braced for a wave of industrial action as a dis-

pute between the mining group CRA and unions over collective bargaining rights threatened to shut docks and coal mines. Page 8 German opposition backs Emu: Germany's opposition Social Democratic party dispelled the impression that the party is hostile to the idea of

European economic and monetary union at its congress in Mannheim. Page 4 Ford unions reject offer: Trade unions and Ford management were still trying to reach agreement on a two-year pay deal for the company's 22,000 manual workers in the UK. Management earlier improved its basic wage offer from 3 per cent to 4 per cent but unions rejected it. Page 12

Four alleged Mafia hitmen held: Sicilian police have arrested four alleged hitmen for the Corleone clan of the Sicilian Maña. The men have been charged with a string of murders in and

E STOCK MARKET BIDIC	-ES	M GOLD	
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ing spending cuts and higher taxes, to wipe out accumulated deficits of FFr250bn (\$51bn), was announced yesterday by Mr. Alain Juppe, the prime minister. The measures, approved last night by the National Assembly in a confidence vote, are based on

structural reforms designed to bring the social security system under closer government control. They include immediate steps to slash the deficit from FFr61bn this year to FFr17bn in 1996 and produce a surplus the following year. Mr Juppé also requested drugs companies to make a oneoff FFr2.5hn contribution.

A fundamental reform of

France's welfare system, includ-

By John Ridding and David Buchen in Paris

Eliminating the welfare deficit is a central element in France's attempt to cut its public deficits attempt to the its prime densits
to below 3 per cent of gross
donestic product, one of the conditions for qualifying for European mometary union from 1999.

The tough French plan comes
as the ITS and many other Euro-

as the US and many other European governments are reviewing welfare systems in an attempt to reduce budget deficits. The shutdown of some US government operations this week is linked to a dispute over cuts in welfare

Announcing his proposals to overhaul politically aensitive social security institutions, Mr

Juppé grasps the welfare nettle Juppe told MPs from the ruling centre-right. "It is not the fate of the government that is involved. there is a national issue at

His plans drew strong criticism from some trade unions. The communistled CGT called for a "powerful day of struggle" on November 28, the date set for a strike by Force Ouvrière, which has a strong base among social security workers. But the moderate CFDT union said it would not support the strike.

Financial markets responded

slightly to trade at FFr3.55 to the D-Mark. Mr Jean Gandois, head of the Patronat employers' federation,

welcomed "brave decisions" applauding the fact that the deficits will be cut largely through spending cuts. Mr Juppé said the government planned to amend the constitu-

favourably to Mr Juppe's

reforms. The CAC-40 index of

leading shares jumped 2 per cent to close at 1,875 points, while the

French franc strengthened

Juppé targets public deficit with spending cuts and tax plans income tax, will be levied for the next 13 years. Exemptions from the CSG itself will be reduced to set overall ceilings on welfare help finance welfare apending. spending. He outlined plans to tighten budgetary controls in and to reduce the contribution from payroll taxes, which pres-ently fund the bulk of the social hospitals, one of the main sources of inefficiency, and said doctors who overstepped spend-ing limits would be penalised security system.

Overall health spending will be

limited to an increase of 2.1 per cant next year, while the pharma-ceuticals industry will be asked to contribute FFr2.5bn to support through restrictions on charges to patients. The Gaullist premier said he the bealth insurance system would implement emergency measures by decree. These include the creation of a special

The prime minister did not specify how the charge would be levied or distributed, but it is expected to be spread across the industry and may be determined on bow companies bave kept agreements with the government



Kantor presents a gift to his Japanese counter-part Ryutaro Hashimoto before their bileteral meeting in Osaka. The 18 governments of the 18; Editorial Comment, Page 17

Hafslund investors halt US merger

By Hugh Carnegy in Stockholm and Tony Jackson in New York

Hafslund Nycomed, Norway's biggest healthcare company, yesterday pulled out of its proposed merger with Ivax of the US, bowing to strong objections from a minority of shareholders.

The merger, announced last month, would have created the world's biggest producer of generic drugs - those that have lost patent protection - with market capitalisation of about \$6.5bn and sales this year of more than \$2.5bn.

But it ran into trouble in Norway where several key Hafslund shareholders were sceptical of Ivax's long-term prospects and afraid that the merger would lead to the rundown of Hafslund's operations there.

The chief opponents were Folketrygdfondet, the state pension fund, and KLP, the municipal pension fund, which together control about 15 per cent of Bafslund's shares.

"The main problem was they believed that the merger meant Hafsland would eventually abandon Norway. The deal was unanpetising for the pension funds whose raison d'etre is to create jobs," said one observer. Hafsiund said it had withdrawn because it was unlikely that it would win the required

two-thirds support, although it

Continued on Page 18

Euro Disney park makes first profit as visitors reach 10.7m

Euro Disney, operator of the theme park near Paris, made a profit this year for the first time since it opened in 1993, with net income of FFr114m (\$23.3m) and sharp rise in the number of

Mr Philippe Bearguignon, chairman, said Euro Disney was now undergoing a "renaissance" after last year's losses of FFrl.8bn, which triggered a wideranging financial restructuring. The company was now in a "virtuous circle ... and can concentrate on its future", ha said.

The number of visitors jumped 21 per cent to a record 10.7m in the year to September 30, and hotel occupancy rose 14 per cent to 68.5 per cent, which the group said was higher than the average rate of occupancy for botel

Euro Disney said the results were due to a significant increase in park and hotel income, tight cost management and the finan-cial restructuring made in the summer of last year. However, the company's shares

closed down 14 per cent at FFr14.20 on the Paris bourse yesterday, in a drop that analysts attributed to the fact that nearly all of the profits were the result of exceptional gains.
The group generated profits of

FFr2m before one-off profits

which were largely the result of buying back FFr372m in convert-

ible bonds for FFr311m, saving it

group's decision in April to cut entrance prices, which represent on average half of the expenditure in the park. Mr Bourguignon said gate prices would stay at current rates

at least for the coming year, but

interest payments. Under US rules, it would have made a FFrLihn loss for the year.

Revenues increased 8 per cent

to FFr2.5bn, although spending

per visitor dropped 10 per cent to

FFr224, largely as a result of the

there would be further adjustments to hotel, restaurant, gift and other prices. He said that on average 65 per cent of the extra income brought in by additional guests to the park would be profits, up to a total estimated capacity of 14m

visitors a year.:

He estimated that the group would need to increase revenues by 4 to 5 per cent a year to meet interest and management charges which would add FFr120m to costs in 1996, FFr220m in 1997 and FFr120m in 1998, after which there are also royalties and management fees to the US Disney parent company. He said there were no plans to

distribute a dividend at least dur-

ing this period. Euro Disney said Disney would provide the finance for a new convention centre to be opened in late 1997, which is expected to cost up to FFr170m.

Investors unimpressed, Page 20 Lez, Page 18

Opening move: US trade representative Mickey Asia Pacific Economic Co-operation forum meet

remained bright.

rates. However, an easing of monetary policy is seen as likely next month, if the budget impasse between Congress and

Fed likely to cut rates as factory output falls

Move expected once budget impasse resolved

body to combine and repay the

FFr250bn of accumulated welfare

This will be achieved partly by

raised taxes. A new 0.5 per cent tax on income, dubbed the RDS

in Washington

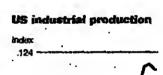
US industrial production fell in October, providing fresh evidence that economic growth is decelerating, official figures indicated

The Federal Reserve said output dropped 0.3 per cent in its first decline in six months. The fall partly reflected the impact of a strike at Boeing, the aircraft maker, which cut factory output by about 0.2 per cent. But, even allowing for the strike, most sec-

tors were flat or down. Separately, the Labour Department released figures showing an unexpected upward move in inflation last month. Consumer prices rose 0.3 per cent from September and by 2.8 per cent on an annual basis, but economists said the underlying inflation picture

The figures were released amid growing expectations that the red would respond to signs of slowing growth by lowering interest rates in coming months. Fed policy makers met in Washington yesterday but made no immediate announcement on

the White House is resolved. No negotiations on the bodget



Rubin finds debt cash Samuel Britten ... Page 16 Page 38 Wall Street

crisis, which has shut down large areas of the federal government. were due to be held yesterday. The National Association of Business Economists yesterday predicted economic growth would slow sharply - to an annual rate of 2.4 per cent in the fourth quarter against 4.2 per cent in the July-September period. Growth

was likely to remain moderate next year. Against this backdrop, the Fed was likely to reduce rates signifi-

cantly, perhaps by as much as half a percentage point, the asso-ciation said. The Fed lowered short-term rates by a quarter point in July to 5.75 per cent, citing a decline in inflationary

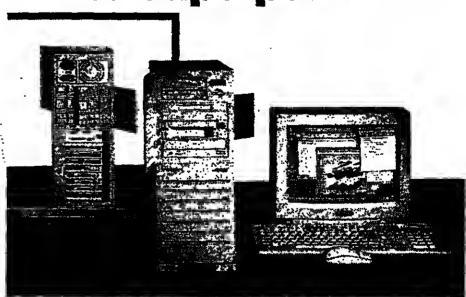
Industrial production showed across-the-board weakness last month. Output of consumer goods, business equipment and construction supplies were down 0.5 per cent, 0.8 per cent and 0.6 per cent respectively. The rate of industrial capacity utilisation fell sharply to 83.6 per cent from a revised 84.1 per cent in Septem-ber, indicating little risk of fac-

tory sector pressure on prices. The 0.3 per cent rise in consumer prices reflected larger than expected increases in the cost of bousing, energy and clothing. Excluding food and energy, the "core" consumer price index also rose by 0.3 per cent, following a string of moderate 0.2 per cent increases.

Economists, however, said the increase did not signal an acceleration in inflation and should not stand in the way of lower interest rates.

"The underlying inflation pic-ture is very benign," said Mr Bruce Steinberg, senior economist at Merrill Lynch in New York. "The performance of the economy fully justifies an easing of monetary policy."

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O THE FINANCIAL TIMES LIMITED 1995 No 32,834 Week No 46 † LONDON - LEEDS - PARIS - FRANKFURT - STOCKHOLM - NEW YORK - LOS AMGELES - TOKYO

PM's reform plans stunned the National Assembly yesterday, writes David Buchan

ny serious overhaul of France's social security system - which has become riddled with waste and vested interests over the past 50 years - was bound to cause a big impact. But Mr Alain Juppé, the prime minister, deliberately resorted to shock tactics in presenting his reforms yesterday to a spellbound National Assembly.

First, he proposed to cut next vear's estimated welfare deficit of FFr61bn (£8bn) not just in half, as be had promised earlier, but to FFr17bn.

Second, reversing the traditional tack taken by French governments when confronted with a financial gap, be proposed closing it more by cutting welfare spending than by raising welfare charges and taxes. Next year alone, be plans savings of FFr17bn and increased charges of FFr12bn.

The prime minister flourisbed another new figure before the National Assembly where some of his backbench. ers, particularly supporters of his predecessor. Mr Edouard Balladur, had complained in this week's social security debate that the government was exaggerating by putting

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Social security: the axe falls

- Debt total FF/250bn backlog to be repaid over 13 years by a new 0.5 per cent levy on all-
- Deficit: to be cut from FFr64bn in 1995 to FF:17on in 1996.
- E-Future funding: to be shifted from payroll to income levies, with companies paying more according to value added than number of
- Old people: pension contributions to be extended from 37.5 to 40 years, Proposed homecare allowance delayed to 1997.
- Family allowances: to be frozen in 1996 and taxed
- -Health: some insurance contributions to rise 1.2 per cent In 1996 and 1997. Spending contraints on hospital, doctors and drug companies. Patients

Prime Minister Alein Juppe

the welfare debt backlog at FFr230bn. Far from being too low, Mr Juppé said yesterday, the real debt figure was FFr250bn, because debt from a separate scheme for farmers had to be added in. Mr Juppë's other tactic yes-

terday was to spread the pain of his measures as widely as possible. The clearest evidence of this was his proposed new 0.5 per cent levy on all forms of income of all but the poorest citizens, in order to repay the FFr250bn debt backlog over the

Cabinet reins in budget deficit

The French government yesterday took

remedial action to keep this year's budget

The cabinet announced measures -

chiefly the cancellation of FFr20bn of

departmental spending credits, and the

"sale" of FFr15bn of public housing cred-

its to the state-owned Caisse des Dépots -

to offset a FFr24bn shortfall in tax reve-

nue and an extra FFr16bn spending com-

At yesterday's cabinet meeting, Mr Alain Juppé, the prime minister, said the

mitments made during the year.

deficit to its FFr322bn (£42bn) target.

By David Buchan and

Andrew Jack in Paris

deficit, be also stressed the shared nature of the sacrifices he was calling for. Pensioners. and those unemployed drawing higher rates of compensation would have their relatively low health insurances charges increased by FFr7bn next year. Families would have to forego next year a rise in allowances, which, from 1997, would be

taxed and means-tested. Big companies would lose a FFr2.5bn tax exemption on pension contributions, while the drug sector - considered partly to blame for France's social security administrators health spending extravaganza themselves will be expected

cuts, which hit defence equipment heavi-est, were "at the limit of what is possible

in the present institutional structure". He

was counting on reforms of France's gov-

eramental structure next year to produce

The finance ministry also announced

yesterday the extension of tax breaks to

help the hard-pressed property market

and to promote the new Nasdaq-type mar-

ket the Paris Bourse is setting up for

To prevent more property being dumped

on the market, the government is to

extend for two years; until the end of

1998, the registry tax exemption for deal-

small, fast-growing companies.

- would be asked to kick in the same amount. Drug companies said yester-

day they expected their contribritions to be gauged according to how they respected price and volume conventions agreed last year. Mr Juppé said the industry had experienced sales growth of 12 per cent between September 1994 and September 1995.

Doctors and hospitals are supposed to disciplina themselves better to the tune of FFr5bn next year. Finally, next year to lop FFr1.5bn off the FFr40bn annual cost of hopefuls

running the system. Indeed, the system itself will be turned upside down. Overt control will now pass from unions and employer organisations to parliament. Mr Juppé announced that the government would soon table a constitutional amendment to bring the welfare system under the purview of parliament, which would set welfare taxes and fix its spending goals each year. Taking the system out of the grasp of unelected "social part-ners" would give it "new democratic legitimacy", Mr Juppé

He plans to use another special procedure. Proposals to unify the country's 19 different health insurance schemes, to widen the current CSG welfare charge, and to create private pension funds will be presented in the form of standard legislation. But all immediate financial changes, and everything relating to the reorgani-sation of hospitals and doctors' practices, are to be passed by

Legislation by decree only requires MPs to vote on the sures en bloc. It therefore saves time, and MPs the embarrassment of having to take a position on individually

In return for all this, Mr Juppé only made one notable sion. He postponed until 1997 a homecare allowance for the elderly which he had made a key pledge for his new gov-

Individual investors on the Paris Bourse's

New Market will not have to pay bourse

tax, while capital-risk funds can continue

to get favourable tax treatment for their

budget revision is the way the govern-

ment plans to cash in its enormous past

subsidies to the CGLS public housing guarantee fund. It argues these subsidies

now make it effective "owner" of past

CGLS credits, which Mr Jean Arthuis, the

finance minister, said yesterday had a

market value of FFr15bn, and which he

The one surprise element in the 1995

EU clears lines for telecom

New measures to ensura a fully competitiva telecoms market in the European Union after liberalisation in 1998 were presented by the Commission yesterday. They set common rules for

who wish to offer services anywhere in the Union. The idea is to make the system as transparent and non-discriminatory as possible, so that all companies have an equal chance of access once remaining industry restrictions have been lifted and traditional operators have lost their monopolies on

voice telephony.

The proposals form part of a steady stream of rules and regulations emanating from the Commission as it seeks to establish a regulatory frame-

work for the 15 member states. Brussels wants the regime to be as light-handed as possible. Under the proposals member states will retain responsibility for anthorising operators who want to offer services. However, rules will have to be applied to ensure national authorities do not favour

domestic companies. First, no limitations should be set for the number of new entrants except where resources are scarce.

Secondly, the rules favour granting telecoms companies general permission to offer all services in another member state, rather than making them apply for a separate licence for each service.

Individual licences should only apply in specific cases, for example, where radio frequen-cies are limited or where an operator wants access to a

non-EU country. Countries must also introduce provisions to facilitate cross-border services. In particular, a company that intends to provide a service in more than one member state may remest the national regulatory authorities concerned to co-ordinate their authorisation procedures so that permission to operate is granted on substanplans to "sell" to the Caisse des Depôts. tially the same conditions.

EUROPEAN NEWS DIGEST

Irish plea on divorce vote

The leaders of Ireland's three coalition parties yesterday held a joint press conference to urge a Yes vote in the divorce referendum, in the first sign of official concern at the prospect

of losing next week's key poll. Mr Dick Spring, the Labour party leader and foreign minister, said threats from the church that divorcees would be denied the last rites and other Catholic sacraments was "way over the top". Mr John Bruton, the prime minister, strongly rebutted charges from the anti-divorce campaign, which has alleged that the proposed amendment undermines the family,

damages property rights, and encourages "quickie" divorces. A similar referendum to end the constitutional ban on divorce was defeated by 21 in 1986 and latest polls suggest support for a Yes vote is slipping. A Yes vote is endorsed by all the parties in the Dail – although some individual MPs have said they will vote against. John Murray Brown, Dublin

Belarus former PM accused

The public prosecutor in Belarus said yesterday he had evidence that Mr Vyacheslav Kebich, the country's first post-Soviet prime minister, had illegally signed securities putting at risk huge sums of public money. Mr Kebich, a candidate for president last year, denied the allegations,

describing them as a "political provocation".

Investigators claim Mr Kebich last year signed 32 securities, payable to the bearer, worth a total of \$1.1bn and turned them over to a Yugoslav construction concern, ostensibly with the aim of obtaining credits. It is alleged that the securities fell into the hands of a British criminal gang later apprehended by chance by London police. Investigators said the documents were returned to Minsk last month. Mr Kebich, now an MP. said he had signed a single document which posed no threat to the economy as no credits had been issued in connection with it. He suggested the charges had been raised to blunt his bid to become the Speaker of parliament.

Reuter, Minsk

Inflation eases in Spain

1983

Spain's inflation rate eased slightly last month with a 0.2 prices, bringing the 12-month rate down to 4.3 per cent from 4.4 in September. After a surge in the spring. accumulated price increases this year have already exceeded an original 3.5 per cent target. But the finance

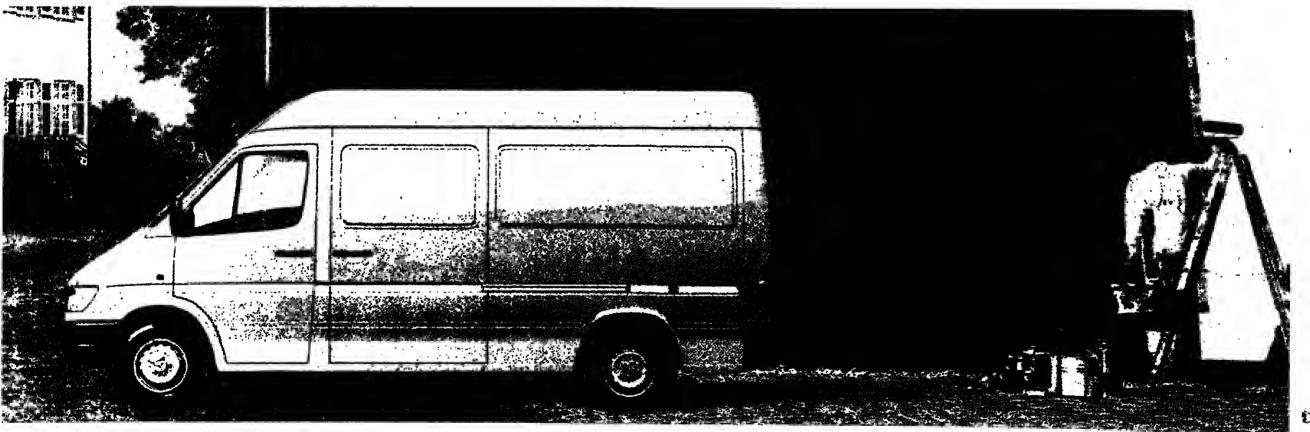
ministry said it expected a rate well below 4 per cent in the early months of 1996. Food was the only category 1 for which prices actually fell in October, the index for fresh Source: Detectors: Det

figure was offset by an unchanged 4.9 per cent rate for underlying inflation and a continuing high level of factory gate price increases, which stood at a 12-month rate of 6.6 per cent in September. David White, Modrid. ■ Portuguese consumer prices rose 0.4 per cent in October after 0.2 per cent in September, for unchanged inflation of 4

per cent year-on-year. Industrial output rose 5.6 per cent in

August from August last year but fell 29.7 per cent from July.

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will, The all-new 122bhp 5-cylinder engine with 17% more fuel economy. So as well as being quick off the block, you'll find the Sprinter to be a long distance runner.

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durable vans you can buy. A van that's long- a family saloon, let alone a goods-carrying lasting, economical and comfortable, with the not surprisingly, a van that's just earned the

The Sprinter is also one of the best-looking vans on the road. With its thoughtfully laid-out controls, attractive upholstery and comfortable seats, the view is as good from the inside

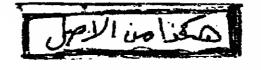
But that sleek new shape isn't just there for show. It helps the Sprinter to achieve a Cd figure of 0.34. That's more than respectable for

vehicle. And that pays off in improved economy. Finally, around 95% of a Sprinter is recyclable. with all plastic components being coded for reuse. But that's a long way in the future. And as far as its owner is concerned, he'll have done a lot of finishes before his van reaches the end of

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NEWS: EUROPE

EU fund to help film industry financing Car sales ticking

By Emma Tucker in Brussels

A bold initiative to revitalise Europe's film industry through a guarantee fund aimed at mass appeal produc-tions was launched by the European Commission yesterday.

The Ecu200m (£170m) fund is to bolster popular, commercially sound tele-vision and film productions from wellestablished companies rather than one-off, artistically brilliant but financially disastrous" projects, as

one industry source put it.
The fund will make it easier for film companies to raise money from banks

Santer doubt on

and financial institutions by acting as an insurer. It will offer financial backers partial guarantees on loans and credit to film and programme makers.
"By diversifying and spreading the risks, it will encourage the financial

sector to step up the scale of its activi-ties in support of the industry," said the Commission. Mr Marcelino Oreja and Mr Yves Thibault de Silguy. respectively commissioners for audio visual policy and economic affairs, believe the fund will mobilise some Eculbn of finance.

The initiative marks a shift away from the idea that direct subsidies

still provided by most EU countries, are the best way to enhance Europe's film industry.

It reflects a belief in the industry that incentives such as guarantee funds are a better way of promoting competitiveness and meeting the challenge from Hollywood.
"New financial incentives to

encourage large-scala investment in film are key to the development of a healthy and competitive audiovisual industry in Europe," said Polygram, the Netherlands-based music and entertainment group.

Big European film companies were Europe faces its biggest dafficit,

is not asking for hand-outs or subsidies, said the European Film Compa-nies Alliance, a lobby group which counts French, German, British, Dutch, Italian and Spanish companies among its members. The fund will be a market-oriented incentive scheme, administered with financial discipline

by commercial bankers."

The fund, which will benefit European production and distribution companies, is intended exclusively for fictional works as "original works with wide audience appaal" ia whare from the fund, projects will have to have "major European and international market potential".

It will not operate in direct contact with companies, but via the banks and insurance companies which propose to share the risks associated with the productions.

The fund will be administered by the European Investment Fund (EIF) set up as a general guarantee fund for other EU initiatives last year. The EIF was set up by the European Invest-ment Bank, the Commission and 76 financial institutions.

over in Europe

Car sales in western Europe rose slightly last month, but manufacturers fear recovery has petered out and that total sales this year will be little changed from 1994, writes John Griffiths. Total sales last month reached 926,300, 1.6 per cent up on the 912,100 of tha previous October. Of the 17 individual markets covered in European Automobile Manufacturers' Association sta-tistics, 10 showed increases, but these included Norway, Finland, Greece and Ireland, whose combined sales were only around

For the first 10 months of tha year, Western European sales reached 10,284,400, a rise of only 0.7 per cent on the same period of last year. Germany, which typically accounts for around 25 per cent of the sales total, was one of only two large markets to record a significant year-on-year sales rise in October — of 9.4 per cent to 246,800 units. The other was the UK, where sales were 11.5 per cent higher in October, at 138,600 units.

Even the reintroduction in France of government-sponsored

incentives to stimulate new car purchases produced no response the market there falling by 6.5 per cent in October compared with the same period a year ago.

October saw the Volkswagen group, including Audi, Seat and Skoda, further consolidate its position as west European market leader. Its unit sales rose by 11.9 per cent to 162,606, representing a market share of 17.6 per cent, more than 5 percentage points clear of second-placed General Motors.

Brussels dusts off blocked laws stability pact the benefits of the statutes

By Lionel Barber in Brussels

Germany'a plan for a "stability pact" on budget discipline within a future European monetary union received qualified endorsement yesterday from Mr Jacques Santer, the Commission president.

While firmly supporting the idea of sustained fiscal discipline for Emu members, Mr Santer said there could be no changes in Maastricht treaty rules governing membership.

"The Commission could accept a stability pact only to the extent this would increase cohesion in the member states which are members of the monetary union," be said in Strasbourg.

The worry in Brussels is that Germany'a push for a stability pact could serve as a cover for tightening the so-called convergence criteria on deficits, debt, inflation rates and exchange rate stability which govern entry into Emu.

Mr Theo Waigel, German finance minister, has insisted he has no desire to modify the treaty. But the Commission is uncomfortable about his proposal for draconian fines on countries which run deficits in excess of Maastricht's ceiling

of 3 per cent of GDP. EU finance ministers are due to discuss the German plan and this week's European Monetary Institute's report on the changeover to a single Euro-pean currency - in Brussels on November 27. Some officials

are already predicting a lively exchange over the way Germany is dominating the Emu debate.

Mr Waigel's campaign is partly in response to the threat by the opposition Social Democrat party to exploit public ambivalence about a single currency as an election issue. But it may also be an attempt to make the Emn scheme more feasible and credible.

Mr Felipe González, Spanish prime minister, warned about creating confusion concerning the Maastricht treaty, particularly for those countries which are going to form the nucleus of monetary union. Some countries were making tremendous efforts to qualify for a single currency, he said. This process could be derailed if the mem-

bership criteria were altered. Mr Santer and Mr González were appearing at a joint news conference with Mr Klaus Haensch, president of the European Parliament, after the first ever political debate on the state of the Union.

In his speech, Mr Santer warned against a minimal outcome at next year's intergov-ernmental conference to review Maastricht and said it was vital to prepare for enlargement to the east. Without mentioning an extension of qualified majority voting directly, he said that without further institutional changes there was a risk of having an enlarged Union which was totally paralysed.

By Caroline Southey in Brussels The Commission yesterday signalled an end to the days when it The European Commission yesterday launched a novel ini-

tiative to end years of disagreement on five pieces of singla market legislation covering important aspects of company Mr Padraig Flynn, social pol-The statutes have been blocked, in one case for more than 20 years, because some mamber states, notably Britain, opposed the inclusion

of clauses relating to employee consultation. Four of the statutes set out a single law for the creation of companies, asacciations, mutual societies and co-operatives - designed to let them operate Europe-wide without having to set np subsidiaries in different member states. The fifth directive covers the powers and obligations of public

ashed annual torrents of legislation on member states. It said tt planned to propose just 19 new laws in 1996, compared with about 50 this year and a high of 180 in 1990, Reuter reports from Brussels. However, this partly reflects the fact that most of the laws needed to create the EU's buge single market have already been initiated.

Flynn tries to end long disagreement on single market issues

icy commissioner, is proposing scrapping the clauses on amployee involvement. They might instead be replaced by a reference to the European works council directive, which sets out the rules under which larger EU companies must consult their workers.

Britain could be excluded from the benefits of the statutes if their implementation is conditional on acceptance of the works council directive. The UK has an opt-out from the directive, agreed by the other 14 member states under the social protocol.

A Commission official said Mr Flynn was "initiating a debate" on how to break the impassa on the statutes and address the problem of worker consultation. He has invited comments from member states, the European Parliament. employers' federations and unions on the various alterna-

tives outlined in the paper.
Other ideas include leaving out a reference to works councils, which would open the way for Britain to apply the new statutes. But this could run into problems with some member states which would object to the idea of giving Britain

without having to address the issue of employee consultation. Mr Flynn has also suggested that Brussels draw up ground rules on worker involvement for national companies.

An EU official pointed out that the Commission's proposals could also face union oppo-

be accused of retreating. But the reality is that the statutes are blocked. Unless we do something nothing will be achieved," he said. The works council directive says only that employees have to be informed and consulted

5ition. "The Commission might

while the clauses in the five statutes provide for the right of employee involvement in company affairs at board level. In addition, the works coun-

cil directive covers only multinational companies with 1,000 employees, including at least

WEST EUROPEAN NEW CAR REGISTRATIONS January-October 1995

	(Units)	Change(%)	Jan-Dec 94	Jan-Dec 93
TOTAL MARKET	10,284,400	+0.7	100.0	100.0
MANUFACTURERS:				
Volkswagen group	1,714,182	+5.8	16.7	15.9
- Volkswagen	1,091,582	+4.4	10.6	10.2
- Audi	320,389	+21.4	3.1	2.6
- Seat	247,121	-4.9	2.4	2.5
- Skoda	55,060	+7.8	0.5	0.5
General Motors	1,342,767	+2.1	13.1	12.9
 Opel/Vauchall 	1,282,381	+2.1	12.5	12.3
- Saab	49,477	+14.3	0.5	0.4
Ford group	1,239,940	+1.5	12.1	12.0
- Ford	1,226,561	+1.2	11.9	11.8
- Jaguar	13,379	+51.4	0.1	0.1
PSA Paugaot Chroen	1,238,966	-5.4	12.0	12.8
- Peugeot	739,754	-6.1	7.2	7.7
- Cîtroen	499,212	-4.4	4.9	5.1
Flet group*	1,122,537	+2.0	10.9	10.9
- Flat	279,07B	+0.3	6.5	6.6
- Lancia	136,280	-0.3	1.3	1.3
- Alta Romeo	105,526	+22.7	1.0	0.8
Renault	1,071,152	-3.4	10.4	10.8
BMW group	636,725	-4.1	6.2	6.5
BMW	331,823	+0.4	3.2	3.2
Rover	304,903	-6.6	3.0	3.3
Mercedes-Benz	346,180	-5.8	3.4	3.6
Volvo	187,706	+9.8	1.8	1.7
Nissan	319,684	-4.5	3.1	3.3
Toyota	263,181	-2.3	2.6	2.6
Honda	155,287	+5.2	1.5	1.4
Mazda	144,734	-5.4	1.4	1.5
Mitsubleti	109,811	+7.6	1.1	1.0
Total Japanese	1,117,539	-0.B	10.9	11.0
Total Korean	149,050	+66.1	1.4	0.9
MARKETS:	1407000	700.		OLD
MARKETS; Germeny	2,821,500	+3.8	27.4	26.6
	1,730,800	+1.2	18.8	16.7
United Kingdom		+0.5	15.7	15.7
Frence	1,615,500		13.9	
taly	1,429,900	-1.0		14.1
Spain	689,400	-8.4	6.7	7.4

"VIV holds (0.3 per cent and Peringement control of Stocks, sincludes pure imponed from US and sold in western Europe, "GM holds 50 per cent and meragement correct of Stab Automobile 44 Fait group includes Lancils, Allis (1996s), smooth, Farrad and Mar Source: ACEA (European Automobile Manufacturans Association)

Accounting rules may be changed

By Emma Tucker in Brussels

limited companies.

The European Commission is investigating ways of allowing EU companies to prepare their consolidated accounts on the basis of international accounting standards, following complaints that accounts prepared on the basis of national legislation are not accepted in the main securities markets outside Europe.

prepare two sets of accounts, which can confuse investors by giving different results. "Companies should only be required to prepare one set of consolidated accounts," said Mr Mario Monti, the commissioner responsible for financial services.

Mr Monti believes BU

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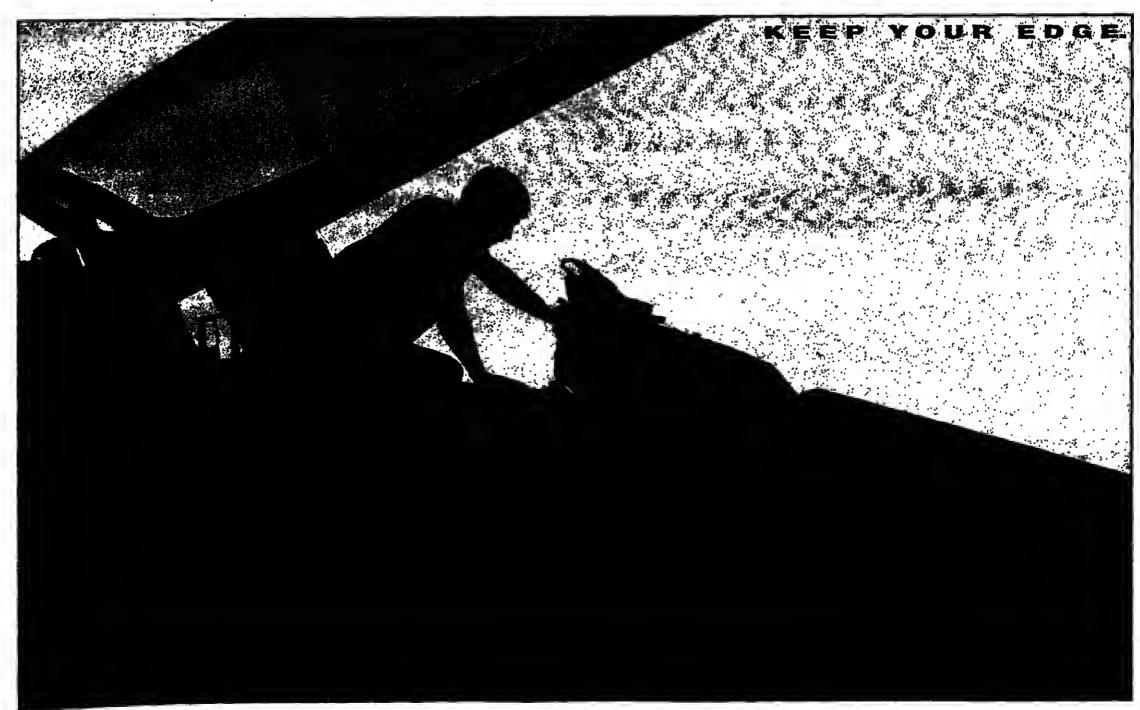
without far-reaching legislative changes, belping to ease their access to international capital markets.

"We are looking for compatibility between Enropean accounting laws and international accounting standards, said an official. "We want to find out bow companies can accounting rules are flexible use international standards as enough to allow companies to a framework for their

existing EU rules," A task force of experts from the member states is to inves-

tigate where there are conflicts between KU norms and international standards. The Commission will then decide whether further legislation is required or - the preferred option - how better to interpret the existing law to allow for compatibility.





Today's Innovation could be tomorrow'e relic. So we never stop developing leading-edge technology. Take Today's innovation of maritime-patrol alreraft. We start by lietening closely to our cuetomers. Then we deliver our fighter, airlift and maritime-patrol alreraft. We start by lietening closely to our cuetomers. Then we deliver highly integrated eclutions with advanced avionice and miseion systems. While continually improving dedicated highly integrated. The result? Aircraft to dominate the skips well late the offer and all of the result? highly integrate. The result? Aircraft to dominate the skies well into the 21st century.



Russia waves China card in Nato's face

By John Thomhill in Moscow and Bruce Clark in Washington

Russia hinted yesterday that it might try to draw China into a new, antiwestern security bloc if Nato went ahead with plans to expand eastwards.

General Pavel Grachev, the Russian defence minister, also said Moscow would not meet the terms of the Conventional Forces in Europe (CFE) agreement, one of the cornerstones of post-cold war arms control, by midnight tomorrow when the deadline for compliance expires.

In a further escalation of Moscow's anti-Nato rhetoric, Gen Grachev said any enlargrement of the Atlantic allifor further dangerous crises".

Speaking after a top-level review of

Russia's strategic priorities, he said Moscow aimed to strengthen security agreements with Belarus and Kazakhstan by the end of the year.

"If Nato looks east, then we will also look east and find allies with whom we can solve security problems," he said. Gen Grachev was apparently alluding to China as well

as the ex-Soviet republics.

Referring to the CFE accord, Gen Grachev said: "We are not ready at the moment to carry out the provisions of this treaty," adding that the Chechen conflict required Moscow to

ure of a compromise stitched together by Gen Grachev and his US counterpart, Mr William Perry.

This accord would have limited the areas of north-western and south-western Russia where Moscow's armour is subject to restrictions.

Turkey, a Nato member, had already criticised the Perry-Grachev deal as too generous to Russia, and Gen Grachev's remarks suggest that Moscow now regards the compromise as not generous enough.

In a separate problem for Nato, alliance members were struggling yester-

ance would create a new balance of forces in Europe and "plant the seeds for further dangerous crises".

keep more troops in the Caucasus region than the treaty allowed.

These comments indicate the fail
candidacy of the former prime miniscandidacy of the former prime minis-ter of The Netherlands, Mr Ruud Lubbers.

Mr Javier Solana, 53, the Spanish foreign minister who signalled his interest in the job last month, insisted yesterday that his country could provide a secretary-general, even though it does not participate fully in Nato's integrated military structure. US officials said the status of Spain

could be a drawback, but Mr Solana'e finent English and close ties with the US - he is a former Fulhright scholar and is said to have a good relationship with senior administration figures - would count in his favour.

Washington remains interested in the candidacy of Mr Uffe Ellemann-Jensen, the former Danish foreign minister who has run into French objections.

Mr Felipe González, the Spanish prime minister, said Mr Solana would make a "magnificent" secretary-general but added that Spain had not yet considered the suggestion.

We have not considered the possibility of putting forward Mr. Solana's name as secretary general of Nato, Mr González told journalists in Brus-

Spain's Foreign Ministry said Mad-rid reserved the right to put forward a name. For the time being there is no Spanish candidate," the ministry said

EUROPEAN NEWS DIGEST

Polish rivals neck-and-neck

President Lech Walesa and his challenger for Poland's presidency, Mr Alexander Kwasniewski, are running neck-and-neck before the second round of voting on Sunday, according to latest opinion polls.

one poli carried out before last Sunday's live television debate gave Mr Walesa, the former Solidarity leader, 51 percent, two points ahead of his former Communist rival. However, another put Mr Kwasniewski, leader of the Democratic Left Alliance party (SLD), at 51.5 per cent, against Mr Walesa's 48.5.

Yesterday the Walesa campaign tacitly admitted that the president had misjudged the popular mood in the first television debate and thethe would be "statesmanlike" in last night's second debate. The two sides continue to trade allegations, with Mr Walesa's supporters claiming Mr allegations, with Mr Walesz's supported that Mr Jerzy Dziewolski, a Kwasniewski supporter responsible for security, had contacts with Mossad, the Israeli intelligence agency.

Christopher Bobinski, Warsow

Russians pass draft budget

The lower house of Russia's parliament yesterday approved a modified version of the 1996 draft budget after the government agreed to increase spending on social programmes, agriculture, and defence by an additional Rhs4,500hn (\$1hn).

The government received unexpected support from Mr.

Vladimir Zhirinovsky, the leader of the ultra-nationalist Liberal Democratic party of Russia, whose support helped push the budget through by a margin of 237 votes to 77 after it

was initially rejected three times yesterday.

The draft budget, which had already been amended by a conciliatory commission composed of government ministers and parliamentary deputies, envisages an average monthly inflation of 1.9 per cent and a budget deficit of 3.8 per cent. But some of the details will have to be further re-worked after the government's latest promise to increase total expenditure by about 1 per cent. Meanwhile, the upper house of parliament yesterday confirmed that next year's presidential poll would take place on June 16.

John Thornhill, Moscou take place on June 16.

Oslo's central banker goes

Mr. Thorstein Moland, Norway's central bank governor, said last night he was stepping down temporarily while authorities investigated a tax case against him. "I have a clear conscience, (but) my credibility has been questioned. I find it difficult to carry out my duties as central bank governor so I am stepping down temporarily while the matter is dealt with," Mr Moland told a news conference. Investigators are looking at a limited partnership of around 150 investors established to acquire Airbus aircraft. Mr Moland is being investigated to determine if he had prior knowledge of a repurchase agreement which would have allegedly given him illegal tax breaks. Reuter, Oslo

Czechs set to join OECD

Mr Josef Zieleniec, the Czech foreign minister, is to sign an agreement on November 28 allowing the Czech Republic to join the Organisation for Economic Co-operation and Development, Mr Vaclav Klaus, the prime minister, said

He told reporters that after parliament had ratified the agreement, the Czech Republic would become the 26th member of the organisation of industrialised nations and the first from post-communist eastern Europe.



Germany's opposition Social Democratic party (SPD) yester-day put its internal discord briefly to one side and pledged itself to the causes of European Union, international peace and

Job creation in Germany.

In a rousing speech that earned an enthusiastic standing ovation from the delegates to the SPD congress in Mann-heim, Mr Oskar Lafontaine, the prime minister of the Saar and deputy chairman of the party, insisted that the SPD "is and stays the European party of Germany".

In putting the party leader-ship squarely behind the idea of European union, Mr Lafontaine dispelled the impression that the SPD was hostile to the idea of economic and monetary union (Emn). But some reservations were apparent in spite of his pro-European rhetoric. It had been a mistake not to link Emu closer to the political union of Europe, he said. A European economic policy was needed to make Emn work. It would also be necessary to link the currencies of non-Emu countries in Europe to the single European currency to avoid competitive devaluations that would destroy jobs in Emu member states.

Mr Lafontaine's speech lifted the party congress out of the introspective and bitter discussion about divisions in the leadership that had dominated the first day. Its reception con-trasted with the subdued ovation given to Mr Rudolf Scharping, the party leader, on the first day of the congress.

The speech also contained a threat to Mr Scharping'e authority because Mr Lafontaine made clear that he was opposed to the deployment of German Tornado aircraft over Bosnia, a policy that Mr Scharping supports.

Introducing a debate on economic policy, Mr Lafontaine called for a fairer tax system in Germany, shorter working hours and more support for research and development. In a resolution, the party leadership said the main goal of SPD eco-nomic policy was "to eccure and create jobs" and this dis-tinguished it from the policies of the Bonn government which were "primarily geared to short-term profits".

At the centre of the party's efforts to take the economic initiative from the government of Chancellor Helmut Kohl is "ecological reform" of the German tax system which envis-ages a step-by-step reduction of taxes and non-wage labour costs such as social security levies. To pay for these cuts and help preserve the environment, the party wants a "steady and measured" increase of taxes on environmentally damaging energy and raw material consumption.

Beaujolais Nouveau producers get sniffy on boycott

By Andrew Jack in Paris

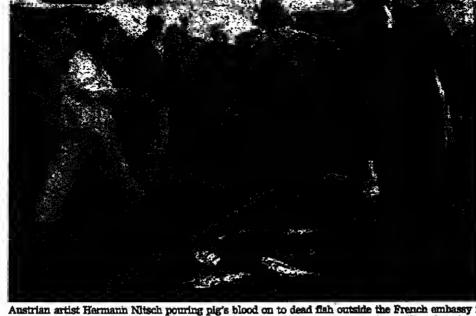
Opposition to French nuclear testing in the South Pacific may have cut demand for Beaujolais Nonvean in some countries, but the French are

bracing themselves to make up the shortfall.

After years of turning up their noses at what many saw as a snobby or arriviste Parisian obsession, la France profonde (outside the capital) is apparently beginning to express interest in the first significant wine crop of the

The light-bodied, fruity red wine was "discovered" by smart Parisian cafés and brasseries after the war, with the slogan le Beaujolais nouveau est arrivé. Consumption topped 50m bottles last year, boosted by decades of international hype, including races to bring the first bottles from producer

Figures released by the Beaujolais producers' association, ahead of the launch today of this year's wine, suggest that any boycott may be offset by a surge in domestic demand - even though the overall wine market is in



Austrian artist Hermann Mitsch pouring pig's blood on to dead fish outside the French embassy in Vienna yesterday in protest against France's nuclear testing in the South Pacific. A French embassy spokesman, who said he rated Nitsch's work highly, described the protest as artistic expression.

decline. Mr Michel Deflache, assistant director of the prodncers' association, said advance orders for Beariolais Nouveau were down 30 per cent in Japan and more than 5 per cent in the Netherlands. There had been noticeable drops in demand elsewhere, including Australia, New Zealand and Scandinavia, hnt these were insignificant mar-

kets for Beanjolais. There was growth in other markets, he said, including in the UK, where Mr John Major, the prime minister, has refused to criticise President Jacques Chirac's decision to

re-start testing. But the mar- drink at home. He cited a ket in France, which repre-sents about a half of sales, was growing well. "Beautolais is rediscovering its roots," he

He conceded that Beaujolais Nouveau was not a top-range wine, but said the French were increasingly drinking it as a party wine.

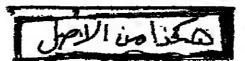
The country's cafés have gone into decline, with thou-sands closing in the last few years, but Mr Deflache said interest among restaurants was growing and more and more French people were buy-

ing Beaujolais Nouveau to

chain of 200 wine stores which was stocking Beaujolais Nou-veau for the first time this

But today's release of the new season's Beaujolais comes against a background of an overall decline in wine sales, particularly of red wine. France's National Interprofessional Wine Office said domestic wine consumption fell 7 per cent in 1994 compared with the year before, continuing a long-term trend - the number of people buying wine fell, as did the average number of bot-





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The state of the s FINANCIAL TIMES THURSDAY NOVEMBER 16 1995 - wan Meier Cong. my wheer mid. of the lind-need Madel Marine & Company of Style Quante A.G. n or all pages T Finance S. C. The second section 1989 ACCEPTAGE & COME 15 110 CNC Corp. SDC Distributing Corp. A 700 150 S United Statemers, Inc. Shingfold Manufacturing Company, Inc. i, ANDLINEER & COMPANY, INC. A_{i}^{i} 79 4. fr. more of 4 point the office of the state of the . The management and the comme Andrewsk & Committee 2 × The first section of the section of HE DELIVERED IN CONTRACT, SAUC. CVC Carp. Kaichem International (..... Company to provide the tions of the money to pe Tree Sterree Staderhand B. 1921 Printers of the second 4 to Come To Ive e. 4 Giobal Maldings S.L. The 3 three law tens bearing that the section of the de partie ANDRINGER & COMPANY . L. 1445 estimates a Comment, inc. 10, 24, 20mil 11-20mil 1 Simple of submon half to be a suited in Street Street Line 2824 . 50 m. 82: 6 1454 ANDLINE OF STORES AND STREET Ectardia 2003 W. March March March Company Com Constitution Const Sales Barbara BLIRDER & C. T. M-Tec Carporation RM Engineered Products. Inc. and unhern Manufacturing. Inc substituties **** AROUNDER & CONPAN, LARI Secretarial decision of the state of the sta REPERT & COMMENTS. AND RBA Industrial Textiles. Inc. Mar the market process and process reads of Interparte Sections 5.4 ANDLINGTE & LONDANY, 180. Section of the Charles and in the state state Interparde s p.r.i. and Internlorm .p.r. the state of the state of ANDLINGUR & COMPANY, I've Cleare Pharmaccutical Company AND DESCRIPTION ANDLINGER & COMPANY, INC 3. Saber USA Inc. 20th Anniversary Section 19 1 The Section of Andlinger & Company, Inc. is an international ALTHORN & Consents, Bro. CHIC COSTS Copringing Appropriates merchant bank whose principals have extensive operating management experience and Carried Street SPERMEN & CONFERN, 1MC CK the stiffee to be preciped in invest their own capital in acquiring majority cantral of industrial companies in the United States and Europa. Carling 17 Supposition N.S. and W.P. Finance N.V. ACWAC N.V. throat plantes N.V. gradual and the second ANDLINGER & COMPANY, 1801. Beleven ., mean Hotole Res . . Secretary of the State of Stat R. C. Park Sures, N. L. :: and the second Corlland Container Corp. Projet Finanziaria s.c.t. أساد ما معدد الله معدد الله المعدد المعدد الله المعدد المعد Signatop France and a factor to the registrate of Container Writian of Prosculti Daniei I.P.T.A. S.p. J&I. Skel Carporation ****** AMBIANDER & CONCANT, IN want Continue of all was bearing to राज्यसम्बद्धाः स्टब्स्याः स्टब्स्याः स्टब्स्याः स्टब्स्याः

ANDLINEER & COMPANY, IN

Netherlands, the US, Germany,

France, Japan and others have

invested heavily in the coun-

try's economy, for others

Nigeria is a valuable export

market and these countries

rely on it for at least some of

their crude oil. Indeed, Nigeria

is the largest African market

outside South Africa and has

huge untapped potential in gas

onland and in oil and gas in

unexplored offshore blocks.
Only an outright oil export

embargo would burt the

regime immediately. Yet this

seems unlikely after the deci-

sion by the EU on Tuesday merely to extend restrictions

on arms sales, aid and entry

A full oil embargo aside, a

ban on investment by the mul-

tinationals or on the import of

spare parts for oil and gas

facilities would lead to a dan-

gerous daterioration of the

industry. This could add to the

environmental damage against which the Ogonis and Green-

peace, the environmental

group, hava campaignad. It would also mean falling oil rev-

enues, some of which the gov-

visas for the regime.

For Abacha's regime, the world can wait

hen Nigeria's army rulers met last week to confirm the death sentences against Mr Ken Saro-Wiwa and eight other Ogonis, they had to choose between securing their grip on power at bome and keeping on good terms with the world.

It did not take long. The swift order to execute the men last Friday was a clear statement of their priorities. At the top of the list is a firm hold on the armed forces during a slow move towards civilian elections without any serious challenge from civilian opponents. Friendship with Nigerla's international creditors, trading partners and fellow African nations can wait.

General Sani Abacha's reactionary power base was united in favour of execution of the nine Ogonis for murdering four rival politicians last year.

The decision earlier this year to commute the sentences of retired generals Shebu Yar'Adua and Olusegun Obasanjo and other officers alleged to have plotted a coup was seen by the hawks in the army as a sign of weakness, with possible effects on discipline.

of Mr Saro-Wiwa and his fellow Ogonis there was to be no backing down.

There has been little protest within Nigeria. In the Niger delta, where there is anger at the executions, a heavy army and police presence has deterred any disorder. However, the civilian ruling

class dominated by the mainly Moslem and Hausa-speaking north saw Mr Saro-Wiwa as a trouble-maker whose campaign for the rights of minority tribes in the oil producing region threatened the unity of the country and the flow of about \$7bn a year in oil revenue from the Niger delta to the rest of the country. This revenue sustains the government and is the lifeblood of the civilian politicians in the south who are hungry for fresh elections and are aligning themselves for the formation of political parties under the watchful eye of the

The regime also felt justified in going ahead with the executions because, as was not the case with the alleged coup plot, this could be presented as a straightforward criminal case.

Abacha, right, felt snubbed by the west when they criticised his three-year transition programme announced in October when he

commuted the

coup-plotters.

alleged

sentences of the

There was a crime, they had held a trial (widely condemned as unjust) and there was evidence against Mr Saro-Wiwa. The regime cares little about membership of the Commonwealth. Gen Abacha had anyway felt snubbed by the west-

October 1 when he commuted the sentences of the alleged coup-plotters. Meanwhile, the international reaction has snowballed. An unprecadantad exodus of ambassadors from Lagos, sus-

pension from the Common-

criticised his three-year transi-

tion programme, announced on

powars whan they



wealth and a ban on a Nigerian sports team visiting South Africa add to Nigeria's growing tightening of existing mea-sures by the European Union are unlikely to change the hardening stance of the Abacha regime to outside pressure.

The relnctance of Britain, the US and other trading partners to take damaging economic sanctions against Nigeria, the only outside pressure which could bring a change of tack from Abuja, is partly through self-interest and partly lack of faith in the alterCompanies from Britain, the are committed to invest in the Netherlands, the US, Germany, under-developed oil producing region.
There is another risk. If lim-

ited sanctions angered the Nigerian regime, it could nationalise some or all of the Nigerian assets of some or all of the oil majors or bring in other oil companies to replace their operations. There was a reminder of that in the recent visit by a delegation from Iran's oil ministry to discuss opportunities in Nigeria.

There has always been a strong element of nationalism in Migerian governments and this regime is keen to show the world who is in charge, espe-cially now that it has its back to the wall. There was a reminder of this in July when Mr Dan Etete, the oil minister blurted out a warning to Shell and BP that their interests in Nigeria could be at risk if the British government continued to discuss Nigeria's expulsion from the Commonwealth. BP was nationalised in 1979 and has only recently returned to do offshore exploration in alli-

Paul Adams

Prevention better than cure says UN refugee chief the report proposes a "home-land-oriented, holistic

Nations High Commissioner for Refugees, called yesterday for a new approach to the world's refugee crisis involving systematic conflict prevention and a greater amphasis on development, Reuter reports from Geneva.

Launching the UNHCR's sec-ond "State of the World'a Refugees" report, Mrs Ogata said her agency could no longer sit at borders and wait for refugees to flood across them but ehould play "a much more proactive role".

"We live in a sophisticated world, but we are responding in a patchy and short-sighted way to problems of conflict and displacement," Mrs Ogata told a news conference.

The 260-page report puts the number of people looked after by the agency at 27m, only half of whom are actually refugees claiming asylum abroa

A relaxation of rigid Cold War notions of sovereignty meant that, at the beginning of 1995, UNHCR was helping internally-displaced popula-tions of more than 250,000 in no fewer than 10 countries.

Although the UNHCR, easily the most respected UN agency, has no real problem meeting a 1995 bndget of about \$1.3bn (£820m), funding of long-term development has fallen steadily in recent years.

The report argues against that decline - even if only for reasons of pragmatic self-interest. "What might have happened in Rwanda if the estimated \$2bn spent on refugee relief in the first two weeks of the emergency had been devoted to keeping the peace, protecting human rights and promoting development in the period which preceded the exodus?" the report asks.

"At what point will the world recognise the cost, in both human and financial terms, of falling to invest in

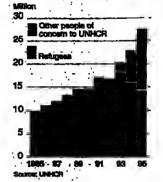
In a rare descent into jargon,

approach" to the problems of displacement - quick fixes were not sufficient Mrs Ogata said it was "not

just an expensive wish-list". The new approaches, combining relief work with development programmes and human rights protection had been tried and shown to work in war zones such as Cambodia and Mozambique. An active international pres-

ence produced clear results in El Salvador and Tajikistan. where 600,000 people forced

The rise in refugees



from their homes in 1992 have almost all been able to return. The report says that although the number of conflicts taking place around the world now is the same as 10 or 15 years ago, the nature of the conflicts has changed - civilians are increasingly the target

of military action. While the number of refugees, at 14.4m, is lower than five years ago, the number of internally displaced has risen sharply to reach 30m.

"Massacres and genocide, such as we have seen in Bosnia and Rwanda, should not be taking place at the dawn of the 21st century. Similarly millions of people should not be having to become refugees in order to survive," said Mrs Ogata.

Algerian poll security tightened to curb attacks

By Roula Khalaf in Algiers

Security was tightened in Algiers yesterday to limit potential targets for Islamic militants who have vowed to disrupt today's presidential

Fearing an Interruption of supplies, Algerians queued outside bakeries and stocked up on basic foodstuffs. Boycotted by the main opposition parties and taking place

amid threats from armed Islamic groups, the election

bas been billed by Algeria's army-backed government as a way out of a four-year crisis. While violence in and around Algiers seems to have subsided in recent weeks, bomb explosions continue to be reported sion was heard in the capital yesterday. Officials said an armed group fired at a truck loaded with gas cylinders after falling to hijack it.

Algerians are pinning their hopes on the poll to end the crisis. They have been caught in the struggle pitting Islamic militants against government forces ever since legislative polls were cancelled in 1992.

President Liamine Zeroual, appointed in January 1994, is favourite. The three other candidates are Mr Mahfoud Nahnah, a moderate Islamist opposed to the Islamic Salvation Front (FIS); an anti-Islamist, Mr Said Saadi, and Mr Noureddine Boukrouh, an intellectual with mild Islamist

A candidate needs to secure a second round next month.

in Western capitals and some 200 foreign journalists are in Algiers this week. France has seen a series of terrorist attacks since the summer.

European countries have called for a return to democracy, fearing the spread of violence could lead to an extremist Islamic takaover and increase immigration pressures into southern Europe.

Algeria is a big gas supplier to Europe and ls in the advanced stages of negotiating oil and gas deals with western companies such as British Petroleum. The energy sector has been largely spared in this crisis, but worries persist it could be hit by sabotage.

The government wants a big aged by the crowds of Algeri-



A booded policeman enforces the curfew in Algiers beside a poster for President Zeroual

ans who voted in western capi-

tor the poll, six of whom have tals this week. Some 102 inter- been sent by the United

most of the vote in the 1991 elections are not taking part. national observers will moni- Nations. The parties that won Editorial comment, Page 17

Kevlar*, **Nomex***, **Nylon**: Helping redefine the cars you drive.

Under the skin of the model changes, which mark progress in the automobile industry, a more fundamental shift in thinking is taking place.

Consumer expectations are causing car makers to redefine their product. In trend-setting merkets, emphasis on looks and performance is giving way to



Modern engines like this Volkswagen B cylindar 24 veive power unit are critically dependent on high quality components with KEVLAR.

new criteria - comfort, efficiency, reliability end, above all, safety. Designers are being challenged to build in more of each at every point in the model

OuPont's engineering fibres are playing an increasingly important part in this process.

NYLON that saves lives

For example, in airbag tachnology OuPont has been active in the development of passive restraint systems since the early 1970s. By the year 2000, almost all new cars are expected to have them.

State-of-the-ert airbags made from high-tenacity industrial NYLON inflate on impact, then deflate to absorb crash energy - all in a split second. At the

moment of inflation, eirbags contain up to 90 litres of gas. Feilura is unecceptable: there are no second chances for this companent.

The special NYLON yams OuPont has developed meet exacting specifications, but save weight and enable e 20% reduction in pack space - advanregeous to designers, engineers, end ultimetely drivers and passengers.

Fail-safe hose technology

DuPont materials help in other ways. Modern engines perform most efficiently at high temperatures - tha higher the better. So the mechanical end heat stress on components in and around today's power units is much greater. Engine bays are not only hotter, they're more crowded, limiting access to many components. This increases the reliability stakes: failure is not just inconvenient to drivers, it's timeconsuming and costly to put right.

KEVLAR para-aramid and NOMEX meta-aramid fibres give designers the



are rainforced with NOMEX to resist temperatures un to 200°C

freedom of more demanding specifications for key components such as hoses.

The industry's ultimate objective is feil-safe products with a guaranteed service life. Menufacturers such as Continental, Gates, Hutchinson, Metzeler, Phoenix and Saiag are well on the way to echieving this, using KEVLAR and NOMEX to reinforce water, oil, fuel end hydraulic hoses. These sat the industry standerd for durability and dimensional stability, especially when things get hot: KEVLAR resists temperatures of up to 160 °C, and NOMEX 200 °C, without functional alteration.

KEVLAR takes the friction

Other component suppliers, such as Goetza, Klinger and Reinz, have adopted KEVLAR as a superior, environmentallyfriendly alternative to asbestos for heavy-duty cylinder head gaskets. Despite higher compression ratios and increased cylinder head tamperatures, failura of this key component is rare.

Engine performance gains have been metched by all-round improvements in hendling and braking. KEVLAR in brake linings delivers smoother, more efficient stopping power in all road and weather conditions, adding to the safety margin and driver comfort.

Linings elso last longer and cause less wear to discs and drums, so saving



DuPost plannered airbags in high-tenacity NYLON. Passanger hags covered in TYVEK behind a "door" to HYTREL" minked weight and space requin

on service costs. The same quelities make KEVLAR a natural choice to reinforce clutch linings, too.

High performance where it's needed

OuPont NYLON is widely used to reinforce car and truck tyres, and KEVLAR is used by Michelin, Dunlog end others specifically to Strengthen modern, low-profile designs developed for bighperformance motoring and racing.



modern tyre designs

Elsewhere, the unique properties of ZYTEL-KEVLAR maka an ideal plastic reinforcement. h reduces noise, is hard wearing, needs no lubrication end doesn't damage counter-surfaces.

ZYTEL-KEVLAR is used by Toyota for door check bars, by the Automotive Products Co. for clutch activation systems, and by other menufacturars

for a wide range of gears, bushes and bearing epplications.

All-in-all, OuPont materials are on integral pert of millions of cars rolling off Euro-production lines et Audi, BMW, Flat, Ford, Lancia, Mercedes-Benz, Opel, Peugeot, Saeb, Toyota, Renault, Volvo end Volkswegen. The list of applications gets longer each year - herdly surprising, given the extensive use of KEVLAR and NDMEX in motor racing end rallying, proving ground for most of the industry's advances in materials technology.

DuPont innovation

The ability of car makers to continue to meet your expectations for increased comfort, efficiency, reliability and safety - and respond to environmental concerns - is critically dependent on new and even better materials. DuPont is committed to their development; the innovativa drive behind our engineering fibre products continues.

OuPont is one of the world's leading industrial compenies, with 40 production and development facilities in Europa alona, and over \$1.3 billion spent annoally by its R&O and customer service laboratories worldwide. KEVLAR

NOMEX and NYLON are produced by OuPont Engineering Fibres which also developed TEFLON' and COROURA'.



from strung, lightweight bodyshells to drivers' flame and beat-resistant overalls.

These products continue to open up new perspectives in applications ranging from household goods to space vehicles.

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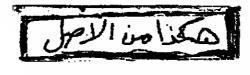
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Securities withheld from civil service retirement funds provide \$61bn

Rubin finds cash for six weeks' US debts

Mr Robert Rubin, the Treasury secretary, yesterday took addi-tional technical steps aimed at enabling the US government to pay its debts "through late

He converted into cash a total of \$61.3bn worth of nonmarketable treasury securities that would otherwise have been invested in two civil service retirement funds.

This enabled the treasury to issue \$57.5bn of cash manage-ment bills yesterday, while a Treasury bill auction today will generate an extra \$48bn. Together this covered \$102bn worth of debt about to come due, including a \$24.8bn repayment made yesterday.

This diversion, Mr Rubin said, was allowed by law and the funds would be repaid with interest so as to protect the rights of beneficiaries. The funds "will remain whola and anyone who says otherwise is

mistaken", he said, adding that he would not touch the much larger aocial accurity trust offices, to normal. fund, and indeed was not permitted by law to do so.

The action cools the issue of raising the \$4,900bn statutory debt ceiling, part of the budget confrontation, for six weeks or so. The impasse has already closed down all non-essential federal government operations for two days and had cast doubt on the US ability to discharge its official debt.

No new negotiations between the administration and the Republican congressional lead-ers were due yesterday, follow-ing sharp exchanges of rhetoric late on Tuesday between President Bill Clinton, Consman Newt Gingrich, the Speaker, and Senator Boh Dole. the majority leader.

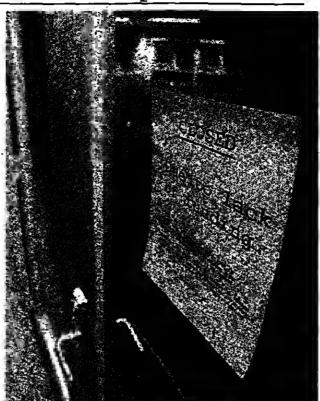
In television interviews yes terday, Mr Gingrich raised the prospect of Congress passing legislation that could restore aome government services.

But this piecemeal approach

was dismissed as "silly" by Dr Alice Rivlin, the budget direc-tor, while Mr Mike McCurry, the presidential press secre-tary, said: "We don't think the Speaker should pick and choose the victims of the current shutdown."

Both sides now expect the deadlock to last for some time, with Mr Gingrich even saying it could take 90 days to resolve completely. But a more imme-diate problem loomed in the shape of the overall budget rec-onciliation bill which Congress hopes to pass by tomorrow but which Mr Clinton has also threatened to veto.

This bill covers not only regular annual appropriations, even though work on only four of the 13 has been completed on Capitol Hill, but also \$245bn worth of tax cuts and reforms



A sign on the locked door of a passport office in Boston yesterday reflects the budget battle between president and Con-

Republicans square up

Budget row may aid outsiders, writes Jurek Martin

enator Bob Dola, the majority leader, faces a worrying test this week-end in Florida in which he must confirm his credentials as the overwhelming favourite for the Republican party's presidential nomination next year. His concerns may be height-ened by a discernible trend in public opinion over the budget impasse in Washington. Although polls blama the Republicans in Congress more than President Bill Clinton for the shutdown of the federal government, they also reveal disapproval of the "politics as usual" that many see as the cause of the crisis.

That appears to offer a clear opening for some of the other nine declared candidates who are not associated, as Mr Dole most prominently is, with the politics of the nation's capital. Mr Dole was the clear beneficiary from retired General Colin Powell's decision not to seek the Republican nominstion, but all polls show the majority leader falling behind Mr Clinton. The latest survey in New Hampshire, home of tha first Republican primary 10-point lead (27-17 per cent) over Mr Pat Buchanan, the rightwing polemicist, with the rest of the field in single digits. The weekend test, in Orlando, comes-in the shape of Presidency III, organised by Mr Jeb Bush, son of the former president. It brings together about 3,000 Republicans who will cast votes in a straw poll for their preferred nominee.

It will differ from earlier

exercises in Iowa and Maine in limiting participants to one vote a head. Those straw polls, in which votes wera cast according to the number of tickets bought, helped Senator Phil Gramm of Texas, who tied with Mr Dole in Iowa and won Maine easily in the majority leader's absence.

Florida has already been inundated with negative commercials and mailings, at their nastiest between the Dole and Gramm camps but also involv-ing Mr Lamar Alexander, the former governor of Tennessee whose whole campaign is predicated on being not a Washington insider.

Mr Gramm, for example, has distributed a "biography" of Mr Alexander highlighting what it charges are his "ethical problems". Mr Dole's state campaign chief has called Mr Gramm "the Darth Vader of negative politics" but has also accused Mr Alexander of mudthrowing in commercials aired in New Hampshire. Mr Gramm's aim is to

emerge as the only conservative alternative to Mr Dole, a role also espoused by Mr Buch-anan. The latter goes down well in grass-roots gatherings but has nothing like Mr Gramm's financial resources

The Florida exercise is really Mr Alexander's last chance to establish himself as a threat, which explains the negative sttention he has been getting. He is a subscriber to the Republican "Contract with America" but feels it does not go far enough in handing federal power back to the states.

The Oriando vote could also mean the end of the road for some candidates, such as Senators Arlen Specter of Pennsylvania and Richard Lugar of Indiana, both relative moderates, as well as others on the

Thinking the unthinkable,

AMERICAN NEWS DIGEST

Pollock fails to sell at Christie's



Christie's in New York suffered a hig disappointment on Tuesday night when the most important work in its auction of contemporary art, one of Jackson Pollock's historically significant "drip" paintings, failed to find a huyer. Rids of up to \$5m were expected for "Number 1, 1952" but were not

forthcoming in the event. This apart, the sale did quite well, with 46 of the 60 lots changing hands for a total of \$14.53m. A new auction record of \$3m was paid for a work by Barnett Newman, "The Word It", an austere canvas of hands of mainly black and blue, painted in 1954. A mobile by Alexander Calder sold for \$992.500 and a silkscreen painting by Robert Rauschenberg made \$827,500, at the bottom of its estimate.

Meanwhile at Sotheby's on Tuesday an extremely rare Cook Islands Rarotongan Head of a Staff God sold for \$530,500, well over twice its estimate and a record price for art from the Cook Islands. The high price reflects its authenticity: it was probably acquired in the South Pacific around 1800, by a whaling captain from Martha's Vineyard, and descended

Run-off poll for Guatemala

Two conservatives will face each other in a run-off presidential election on January 7 for the Guatemalan presidency, after neither received an absolute majority in Sunday's election.

Mr Alvaro Arzu, a wealthy businessman and a former mayor of Guatemala City, is seen as more moderate than his main rival, Mr Alfonso Portillo, a lawyer representing the party of former military dictator General Efrain Rios Moutt.

With almost 98 per cent of the precincts reporting yesterday, Mr Arzu, of the Advanced National party, led with 36.55 per ceut. Mr Portillo, of the Guatemalan Republican Front, was on 22.11 per cent. The winner takes office on January 14 for a four-year term.

Electric cars for California

Leading carmakers have offered to start selling limited volumes of electric-powered cars next year in California in an attempt to persuade the state government to back-track on laws forcing them to market fixed quotas of non-polluting vehicles from 1998.

Officials from Chrysler, General Motors, Ford, Toyots Mazda and Nissan are expected to discuss the proposal with pollution control officials in Sacramento today. The companies were unwilling to discuss details before the meeting, although they are attempting to secure a compromise which might encourage the natural evolution of the new market sector in place of the mandated requirement that they place an estimated 22,000 vehicles on distributors' forecourts in 1998.

This total. 2 per cent of sales, is due to rise to 5 per cent in 2001 and 10 per cent by 2003. Christopher Parkes, Los Angeles

Chrétien silent on 'spying'

Canadian Prime Minister Jean Chrétien yesterday refused to comment on allegations that Canada had spied on friendly countries, but said the country's spy agencies must obey the law. He said he was not briefed on the daily operations of Canada's spy agencies but added: "They have to act within the

A former spy with Canada's electronic espionage agency, the Communications Security Establishment (CSE), said in a television interview on Sunday that Canada had spied on friendly countries, including Mexico, Japan and South Korea.
Mexico and Japan are reported to have lodged official

Bouchard 'wants top BQ job'

Mr Lucien Bouehard, leader of the separatist Bloc Québécois in Canada's House of Commons, may announce on Monday that he will seek to become premier of Quebec early next year.

Le Soleil, the Quebec City daily and the French service of the Canadian Broadcasting Corporation, quoted sources close to Mr Bouchard as saying his decision to seek the leadership of Openbec's religing Parti Québécois and hence the premiership of Quebec's ruling Parti Quebecoia and hence the premiership had been taken.

Le Soleil said Mr Bouchard, following the narrow defeat for the separatists in the October 30 referendum, did not want to push Quebec into another one. He would concentrate on reorganising the province's strained finances and await a firm reorganising the province's statuted and the constitutional offer from Ottowa before encouraging another constitutional offer from Ottowa before encouraging another constitution debate on independence.

Robert Gibbens, Montreal divisive debate oo independence.

Ecuador bans new banks

Ecuador's government has announced a ban on new banks and financial institutions opening for the next three years. It also tripled the minimum capital requirement for existing banks and financial institutions. Those that do not comply banks are manufactured to will be prohibited from comply with the new requirements will be prohibited from opening

new offices or branches.

The move is intended to promote mergers and help reduce the mumber of financial institutions from the current 160, said Mr Patricio Mareno of the superintendancy of banks. Small lending institutions vying for a share of the market are lending institutions vying for a share of the market are partially responsible for high interest rates, Mr Moreno said. "The majority of the banking community favours the new "The majority of the banking community favours the new resolution," said Mr Alfredo Arizaga, vice-president of Banco resolution, " said Mr Alfredo Arizaga, vice-president of Banco resolution," in the long run it will strengthen the financial sector." Foreign banks interested in operating in Ecuador still

sector." Foreign banks interested in operating in Ecuador still had the opportunity of investing in existing domestic

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THE INFORMATION MANAGEMENT COMPANY

China's Hong Kong plans condemned

By Simon Holberton in Hong Kong

The difficulties China faces in its takeover of Hong Kong in less than 600 days were graphi-cally underlined last night when the colony's Legislative Council (LegCo) condemned Beijing's plans to water down civil rights law in Hong Kong. The recently elected council voted 40 to 15 in support of a

motion expressing deep concern about China's plans to change the Bill of Rights, a 1991 law which underpins civil rights in Hong Kong. Since China announced six weeks ago that it planned to do this, and reinstate security and

broadcasting laws which had been changed to conform with it, virtually all shades of opinion in Hong Kong have united in opposition to Beijing's plans.

China believes the Bill of Rights will weakeo the administrative power of Hong Kong's future government. "This is harmful to social stability, and seriously interferes with China's sovereignty and internal affairs," Wen Wei Po, a Beijingfunded Hong Kong newspaper,

Mr Michael Suen, secretary for home affairs, told the legislature last night that the government rejected this and other Chinese claims. Changes to the law had not undermined the government's ability to govern. "It signifies a lack of trust to think otherwise," he

Observers said that an important casualty of the controversy was the reputation of the colony's judiciary. Chinese officials, in their attempt to demonstrate that support for their position resided in high places, revealed doubts about the rights law held by Sir T.L. Yang, chief justice, and Mr Justice Benjamin Liu of Hong Kong's court of appeal.



Anson Chan: asked judge for Bill of Rights views on paper

Both men were embarrassed hy the revelations and said their views were communicated in private discussions. Bnt Hong Kong's legal commonity has been shocked by them, with some lawyers expressing doubts about the ability of either jodge to pass judgment on a Bill of Rights case in future.

Observers also noted Beijing's willingness to sacrifice Sir T.L., a man who has cultivated China's leaders and was seen as the front runner for the position of Hong Kong's chief executive, as the post-1997 governor of the colony will be known. "We are dealing with some pretty rathless people here," one noted.

Mrs Anson Chan, chief secretary, has ensured, however, that the controversy will run for some time to come. She asked Sir T.L. to commit his doubts about the Bill of Rights to paper for ber, a paper which she will find it difficult not to

Sins of the son visited on Taiwan tycoon.

t must have been when the Taiwanese press turned its attentions from foibles of son to failings of father that Mr Wang Yung-ching knew matters had got well and truly

out of hand.

The 79-year-old founder and chairman of Taiwan's biggest industrial conglomerate and pillar of the island's business establishment doubtless gave scant thought to the extra-marital dalliances of his eldest son and heir apparent to the Formosa Plastics group. After all, the inimitable patriarch of the petrochemicals empire is the product of a generation which still lives by the mores of old China, and he himself has three wives and 12 children. But the limits of fatherly

indulgence were shattered last week when the local media began unearthing steamy esca-pades from Mr Wang senior's own past. The last straw may have been when newspapers began citing a Chinese prov-erb: if the upper heam is crooked, the lower beams will go askew The episode holds resonance

for many family-run Taiwanese groups navigating the shoals of generational transition. While the Wang family may be an egregious case, other groups confront aimilar challenges and, like Formosa Plastics, it is not certain that they will suc-

Mr Roh Tae-woo, the former South Korean

president, was last night being questioned by prosecutors amid expectations he

would be arrested today on bribery

Prosecutors believe Mr Roh, who has

confessed to amassing a \$650m slush fund, received the money for awarding govern-

ment contracts and other state favours

during his 1988-93 term. Mr Roh said the

funds were political contributions, not

bribes. The former president would

become the first Korean head of state to face criminal charges. He could serve 10 years to life if convicted.

If indicted, Mr Roh is expected to be

taken into custody and imprisoned in a

special security cell at Seoul's main deten-

tion centre. The arrest is likely to end an

intensive four-week investigation of his

charges.

alleged corruption.

Laura Tyson on a tale of passion, intrigue and succession in a family-run business

to the second generation. For two months Taiwan has been transfixed by a convoluted saga which began with a graduate student at the country's most prestigious university accusing a professor of sexual harassment and evolved into a tale of intrigue, passion and power reminiscent of the courts of imperial China within one of the island's most

prominent families Revelations that 44-year-old Mr Winston Wang, top manager in the Formosa group and a part-time professor at Taiwan University, was having an affair with Ms Lu An-ni, 26, were little cause for remark in a society which regards extramarital liaisons as de rioueur

traits with the lady, later inevi-tably splashed in the press, was perhaps a minor lapse in judgment for the married father of two, Winston's predicament has evoked more sympathy than condemnation.

What is more important, tha affair ignited a fierce power struggle in the family, pitting the children of Mr Wang senior's second wife against tha third wife and her children. Further complicating matters, the elder Mr Wang's brother. Mr Wang Yung-isai, has two wives and eight children him-self, many of whom hold senior posts in the group. The internecine rows have factionalised the companies, with staff back-

cessfully survive the handover for men of means. Although ing various family members. to the second generation. posing for a set of wedding porwife is his favourite and although she holds no formal position in the group, she is said to exert substantial control through her five daughters, all of whom have prominent jobs, and her considerable

influence over her husband. Mr Winston Wang, who is the son of the second wife, last week conceded defeat. He refused to obey his father's order to break off the relationship, but he publicly apologised for tarnishing the group's image, said he had "learned a lesson" and was banished from the group for a year. But the façade of harmony

within the family has been

sending Winston into exile may create more problems than it solves. British-educated Winston is widely regarded as the most capable of all the children, having spearheaded the group's successful moves into high technology in spite of his father's opposition.

The long-term future of the group has been cast into doubt, observers say. What if Winston decides to found his own company and not to return to the group? What if third wife and her brood prevent him from coming back? And worst of all, what if his domineering father should pass away without formally nominating a successor, leaving the offspring to fight over the spoils?

Other groups that are candi-

dates for family succession problems include Cathay Life. Taiwan'a biggest financial group, the diversified Rebar group and diversified Tainan Spinning. Others, including Far Eastern Textile, Wei Chuan, a foods group, and Pacific Electric Wire and Cable, appear to have managed the transition successfully. In the generation of indus-trialists that is now in their

seventies or eighties, the only guy who doesn't officially have more than one wife is C F Koo [who heads the diversified Koo'a Group], but they all have girlfriends," said a well-connected Taiwanese banker.
Polygamy is not the only fac-tor complicating dynastic suc-

cession in Taiwanese industry.
Often the generation gap is
compounded by a cultural gap
as many of the second generation were sent abroad to study and came back Americanised, sometimes with poor Chinese-language skills or, worse, business school degrees.

"For those old guys with hardly any education who built np their companies themselves, theories learned in business school don't mean much," said the investment banker. "Many of the older generation just don't trust their kids."

elections early next month. It threatens to

PARTY RIVAL JOINS ELECTION CHALLENGE TO PRESIDENT

A leading political rival of Taiwan's President Lee Teng-hui yesterday joined the race for the island's first presidential elections next March, in a surprise move likely to provoke a decisive split within the ruling party and further polarise Taiwan politics, Laura Tyson reports from

Mr Hau Pei-tsun, a former general and prime minister from 1990 to 1993, announced he would join the ticket of

Mr Roh's appearance at the prosecutors'

office yesterday was his second in two

weeks. Interest is focusing on whether he will confirm, as alleged by opposition par-ties, that he secretly helped finance Presi-

dent Kim Young-sam's election campaign

Such an admission would damage Mr

Kim's reputation as a clean politician and expose him to charges that he violated

election financing rules. Mr Kim has

denied be personally received money from Mr Roh, his former political ally in the

Prosecutors have interrogated more

than 30 leading business leaders to gather evidence on whether their donations to Mr

Roh amounted to bribes for defence and

Up to 10 executives may also be indicted

on bribery charges, though most claimed they were forced to give the money or face

ruling Democratic Liberal party.

construction projects.

Roh may be arrested

on bribe charges today

presidential hopeful Mr Lin Yang-kang as vice-presidential candidate. As leader of the opposition faction within the ruling Knomintang, Mr Han commands wide support among mainlanders – those residents of Taiwan

who fled China's civil war in 1949, who make up 15 per cent of the population. Mr Han's entry in the race jeopardises the Kuomintang's prospects of retaining its absolute majority in parliamentary

intensify public debate over whether Taiwan should become an independent country or unify with China, which regards the island as a rebel province. Mr Han, who was born in China, supports

Although Mr Lee is still expected to retain the presidency, his probable margin of victory now appears less

ASIA-PACIFIC NEWS DIGEST

Philippine woes hit stock market

The Philippine government said yesterday that 75 per cent of the country had been declared a "state of calamity" as the stock market slid for the fifth consecutive day on fears of higher inflation and growing food shortages. A series of natural disasters, including a "super-typhoon" which wrought havor two weeks ago, and man-made mishaps including poor rice distribution leading to the doubling of rice prices, have caused the Philippine stock market to lose almost 25 per cent of its value in the last few weeks.

Stockbrokers, who until recently were riding on the crest of the fastest growing emerging market in Asia, are now advising foreign investors to steer clear of the Philippine market until inflation is under control. The stock exchange dropped 25.15 points, or 1.1 per cent, at yesterday's close to 2,315.26, almost 25 per cent below its July peak of 2,958. Mr Jo De Venecia, speaker of the House of Representatives, said yesterday the government would grant importers unlimited authority to buy foreign rice in an effort to reduce prices. In the past two months, the government has imported more than 200,000 tonnes of rice, the first time overseas rice has been bought



Australia and Vietnam agreed yesterday to spend about \$60m building Vietnam's first bridge across the Mekong river by the year 2000. The bridge, to be built at My Thuan in southern Vietnam, is Vietnam's highest infrastructure priority, said Mr Gordon Bilney, Australian development co-operation minister.

Mr Bilney and Mr Bui Dauh Luu, Vietnam's transport and communications minister, signed a memorandum of understanding in Canberra for the detailed design phase of the bridge. It will replace a ferry service which carries up to 22,500 people, 4,000 tonnes of freight and 5,000 passenger vehicles a day across the Mekong. Australia has already built the Friendship Bridge over the Mekong linking Laos and Thailand. But the future of the second bridge was put in doubt soon after the signing as the conservative opposition said it was inappropriate for Australia to spend so much money on the project.

Reuter, Cambers

Malaysia admits steel losses

The Malaysian government has admitted what it describes as heavy losses at Perwaja Steel, the state company seen as one of the pillars of the country's industrialisation programme. Mr Anwar Ibrahim, deputy premier and finance minister, said a new management had been put in place at Perwaja. "There is a loss, a heavy loss," Mr Anwar said, refusing to state the size. Mr Lim Kit Siang, leader of Malaysia's main opposition party, quoted a government report saying that up to March this year Perwaja had an accumulated loss of M\$2.50n (US\$1bn).

Derwaja was set up in the mid-1980s by Dr Mahathir

Perwaja was set up in the mid-1980s by Dr Mahathir dohamad, the prime minister, to provide the foundation of Mohamad, the prime minister, to provide the foundation of Malaysia's entry into heavy industries. There have been reports the government plans to offer Perwaja to Renong, one of Malaysia's higgest conglomerates, controlled by the Malay entrepreneur Mr Halim Saad, possibly in return for allowing him a controlling stake in Telekom Malaysia, the partially privatised telecoms utility.

Kieran Cooke, Kuala Lumpur

Japan denies Timorese asylum

A group of 21 East Timorese who climbed into the Japanese embassy compound in Jakarta on Monday this week embassy compound in Jakarta on Monday this week requesting political asylum have been denied refuge in Japan but offered asylum in Portugal. The group said they were fleeing political persecution in their home territory, which was invaded by Indonesia in 1975 after being abandoned by Portugal. This is the third embassy incident involving East Timorese asylum seekers in the past two months in what is turning out to be a regular embarrassment for the Indonesian authorities. *Manuela Saragosa, Jakarta*



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Australia set for industrial action

Roh: "contributions, not bribes"

By Nikki Tait in Sydney

Australia was hraced for a wave of industrial action last night, as a dispute between CRA, the mining group, and unions over collective bargaining rights threatened to shut

down docks and coal mines.

The Australian Council of
Trade Unions, the powerful
umbrella body, said maritime and stevedoring workers in main ports would begin a fiveday strike from midnight tonight. The hig mining unions, meanwhile, plan a seven-day stoppage from midnight on Tuesday. The 3,000 workers at CRA's own coal mines have

started a 48-hour strike. With unions in the Metal-Trade Federation and the Australian Education Union offering public support, Mr Tim Pal-las, a senior ACTU official, said a series of "industry meetings intended to direct action" against CRA and Comalco, its aluminium subsidiary, would be held on November 20. The industries would include power, oil, chemicals, manufac-

turing and transport. The dispute revolves around a push by CRA, the mining group, to replace traditional union-negotiated "award" wage payments by individual staff contracts. At its large heuvite mining constitute in bauxite mining operations in Welpa northern Queensland, more than 70 workers have refused to make the switch, doing the same work".

being discriminated against. They say workers on staff contracts get up to A\$20,000 (\$14.814) a year more in pay and entitlements for similar jobs. Comalco says "differences averaging A\$7,000 have emerged" and would negotiate,

and now claim that they are

but wants a port blockade at Weipa called off first. With a federal election looming in Australia and industrial relations policy set to be a big issue, the battla is as much about national politics as Weina differentials.

The ACTU claims the erosion of collective hargaining rights is part of the opposi-tion's industrial relations strategy, and warns that its co-operative approach to labour market issues would quickly vanish. "This is the world we'd all be living in," Ms Jennie George, president elect of the ACTU, said yesterday.

In response, the opposition points ont that CRA's push toward individual contracts has arisen under Labor government legislation. "The CRA issue is happening

according to the Brereton book and under the Brereton regime," Mr John Howard, opposition leader, said yesterday, referring to Mr Laurie Brereton, federal industrial relations minister. His own coalition would not sanction discrimination against workers

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LEGAL NOTICES

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By Order of the Board KHG COALES

13th November 1995

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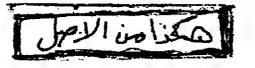
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in Deop Mexico 'flouting privatisation contract' | Chinese bank

By Leslie Crawford In Mexico City

A Belgian dredging company yesterday accused the Mexican government of flouting contracts granted during the privatisation of port services, the first time a foreign investor in Mexico has taken a grievance to an international forum. The complaint is a blow for

President Ernesto Zedillo's government, which is struggling to attract more direct foreign investment to mitigate the effects of a severe recession and financial crisis.

Jan de Nul, one of the world's four largest dredging companies, has lodged a complaint before the World Bank's International Centre for the

putes. The company, in part-nership with Tribasa, one of Mexico's largest construction companies, won contracts for maintenance dredging work at seven Mexican ports when port services were privatised in 1993. The privatisation included the sale of govern-ment-owned dredges, which

were to be partially paid for hy providing dredging services.

Jan de Nul alleges that once the vessels had been fully paid for. Mexico's port authorities fall behind in paying for far. fell behind in paying for further services and in the commissioning of new work, guaranteed in the privatisation contract. The company says several attempts were made to settle the problem with port authorities and the ministry of transport and communications.

the Mexican navy was brought in to do dredging work in the port of Manzanillo last month, while our dredges lay idle," said Mr Jan-Piet de Nul, the Belgian company's managing

In his letter to the World Bank, Mr de Nul accuses the Mexican government of being "blatantly in breach of con-tract in respect of the guarantead exclusivity for private companies on the maintenance of ports". The navy, he argued, should not be allowed to undercut the services of private companies.

Jan de Nul'a appeal to the World Bank has embarrassed Tribasa, its partner in Mexico, which depends on government

\$1bn-a-year construction husiness. This far outweighs its joint-venture with Jan de Nul. called Mexicana de Dragados. "It is a very unfortunate let ter," said Mr Andrés Caire, Tri-basa's vice-president. "We had

a meeting with the minister of transport at the end of October and he told us the contracts would be honoured." Mr Frantz Guns, the man-ager at Mexicana de Dragados, in which Tribasa owns a 51 per

can government. "Our Belgian partners have clearly lost their heads over this one." In Belgium, however, Mr de Nul said he felt cheated and disappointed by the way his

company had been treated by

the port authorities to reimburse Mexicana de Dragados for unpaid work. At the headquarters of the Puertos Mexicanos, however, cent stake, said the company had no quarrel with the Mexi-

Mr Marco Antonio di Stefano, the director-general, said he could not afford to pay for dredging services at the dollar prices agreed before Mexico's traumatic devaluation of the peso last December. "We are searching for new solutions,"

Mr Carlos Rulz Sacristan, the transport ministar, said the dredging dispute, including the

Navy'a presence in the Pacific port of Manzanillo, had arisen

due to a "misunderstanding".

an earthquake hit the Pacific

"The navy was called in after

In the meantime, a second dredging company, Dragamex, controlled by Boskalis of Holland, says it is close to bankruptcy because of the poor payment record of the Mexican port authorities

coast," the minister said. "It was an emergency". Mr Ruiz Sacristán said he had ordered Boskalis, the world's largest dredging company with annual revences of \$500m, says it has also lost custom to dredges operated by the Mexican navy. Mr di Stéfano said he was also holding talks with Dragamex to try to reach agreement on a new contract. "We are concerned that the navy dredges may become a new atate-owned dredging company," says Mr Jan Krygsman,

Their action follows growing concern from western bankers and exporters over the past 18 months that Chinese banks are delaying or refusing to meet their obligations in letters of credit. A letter of credit is a promise for a local bank to pay an exporter once evidence of shipment is provided.

By Andrew Jack in Paris

letters of credit on time.

isation, resolved this week at

its twice-vearly meeting in

Paris to hold discussions on the topic with the Bank of

China and other Chinese

del Busto, chairman of the commission, plan to hold meetings in the next few months in an effort to resolve the problems. The commission has set up a formal reporting system so banks and exporters can formally document and notify the commission of problems in their trade with China. Separately, it is to urge all

the companies more work, but at a cheaper price."

The bear range of the companies more work, but at a cheaper price." ten commitment to comply with the conditions of the International bankers are to

hold talks with Chinese banks amid concerns that some of them are failing to honour of rules for which are set down by the ICC. The banking commission's The Banking Commission of the International Chamber of bargaining position has been strengthened by China's deci-Commerce, the husiness organ-

sion this month to join the ICC and comply with its rules on international trade. However. Mr de Busto emphasised that he believed many of the problems in trading with China might have been exaggerated, and that he was aware only of a few anec-

with letters of credit.

He said some payments were delayed because Chinese officials found the technical language in documents difficult to understand and sent them back for clarification.

dotal examples of difficulties

Mr Kenneth Smorthwaite, vice-chairman, and Mr Charles Others were part of the normal process of renegotiation that happened in commodity trading, when traders tried to

gain time to take advantage of fluctuations in pricing. in addition, he said some problems were the result of the 'explosive growth" in trade with China in recent years. which had stretched the

resources of the country's

Hoechst set to triple China investment by 2000

By Jenny Luesby

Hoechst, the world's largest chemicals company, said yesterday it was tripling its investment in China to \$1bn by 2000 in an effort to become the country's leading foreign chemicals company. Mr Horst Wäsche, director for Asia, said sales to China, Hong Kong and Tallippine 406 • Taiwan had been rising by

more than 10 per cent a year, to \$680m last year. The German chemical group had decided to move its headquarters for Hong Kong,

Taiwan and China from Hong Kong to Beijing, and had already set up 15 branch offices within China. Of the world's top five chemical companies, four have iden-

tified China as a principal

investment target. DuPont of the US is investing \$2bn in Asia, a large part of which will be in China, while Bayer and BASF, both of Germany, are investing between \$200m and \$300m each in the country. Bayer yesterday announced its sixth Chinese joint venture, a \$22m facility to produce chemicals for the rubber and

oil industries.

Hoechst yesterday suggest it bas more manufacturing ventures in the pipeline than its competitors. The group began investing in China in 1987, when it set up a

joint venture producing tobacco filters. This was fol-lowed in 1992 by an insecticides factory. This year, it has begin production at four more

But projects unveiled by joint ventures, making indus-trial gases, car paints and synthetic fibres, and production will start at another two tobacco filter plants within the next few weeks.

Hoechst said yesterday it had committed \$340m to these plants and two others that will produce antibiotics and polyester. It was close to exchange of contracts on 10 more plants,

agreed in principle. These would take its invest ments in China to \$750m by next year, and \$1bn "long before the year 2000", the company said.

and another six had been

The group's aim was to lift its sales in Asia from 12 per cent of the group's turnover of \$33bn last year, to 20 per cent

WORLD TRADE NEWS DIGEST

BA chief urges free air market



Sir Colin Marshall, pictured left, chairman of British Airways, yesterday called on the UK and US governments to abandon their step-by-step approach to aviation negotiations and move immediately to a transatlantic single air market. Sir Colin told the Wings Club in New York that as airlines increasingly formed cross-border alliances. bilateral negotiations were becoming irrelevant. He said that within a single market. US and UK airlines could

such as access to London's Heathrow airport, US carriers' failure to win greater access to Heathrow has prevented the cooclusion of a new air agreement between the two countries. "The airport is congested for all of us," Sir Colin said. One. way for Heathrow's congestion to be eased was for trading in take-off and landing slots to be permitted. He also said airlines in the UK and US should be allowed to invest freely in one Michael Skapinker, London

WTO sets up regional watchdog

The World Trade Organisation is to strengthen the monitoring of regional trade agreements, in a response to growing concern that proliferating regional deals may be putting the multilateral trading system at risk. The WTO's general council yesterday agreed to back a Canadian proposal to establish a single watchdog committee on regional trading arrangements. The council's chairman, Mr Krishnasamy Kesavapany of Singapore, will consult WTO members on the committee's terms of reference, and the new body could be set up early

The idea for a single committee emerged from a meeting last month of trade ministers of the Quad group of leading traders - the US, the European Union, Japan and Canada. Under the present cumbersome procedures, a separate WTO working party is set up for each notified regional agreement. Some 20 working parties are active. Canada said the move would streamline the WTO's work in checking whether proposed free trade areas and customs unions were consistent with fair Frances Williams, Ger

Toyota targets Chinese market

Toyota, Japan's largest car maker, is seeking to manufacture engines for small passenger cars in China in an effort to enter the growing Chinese vehicle market. Mr Hiroshi Okuda, Toyota's president, is expected to raise the possibility of a joint venture engine manufacturing facility in Tianjin with Chinese authorities during his visit to China. He is also expected to meet officials in Tianjin to discuss the proposal that Toyota manufacture engines with Tianjin Automotive Industrial Corporation for use in cars made by the Chinese

The move represents a bid by Toyota to push forward its strategy in China, where it has been something of a In September, Toyota took a controlling stake in Daihatsu, a manufacturer of small passenger cars, which has been transferring technology to Tianjin Automotive. Tianjin Automotive produces 60,000 units a year of the Charade, a small passenger car, with technical assistance from

The Chinese company aims to increase its manufacturing capacity of the Charade to 150,000 units by the end of the year. Daihatsu. Toyota is proposing to assist in the production of engines for the larger Charades, which are to be manufactured when Tanjin Automotive's production capacity is increased.

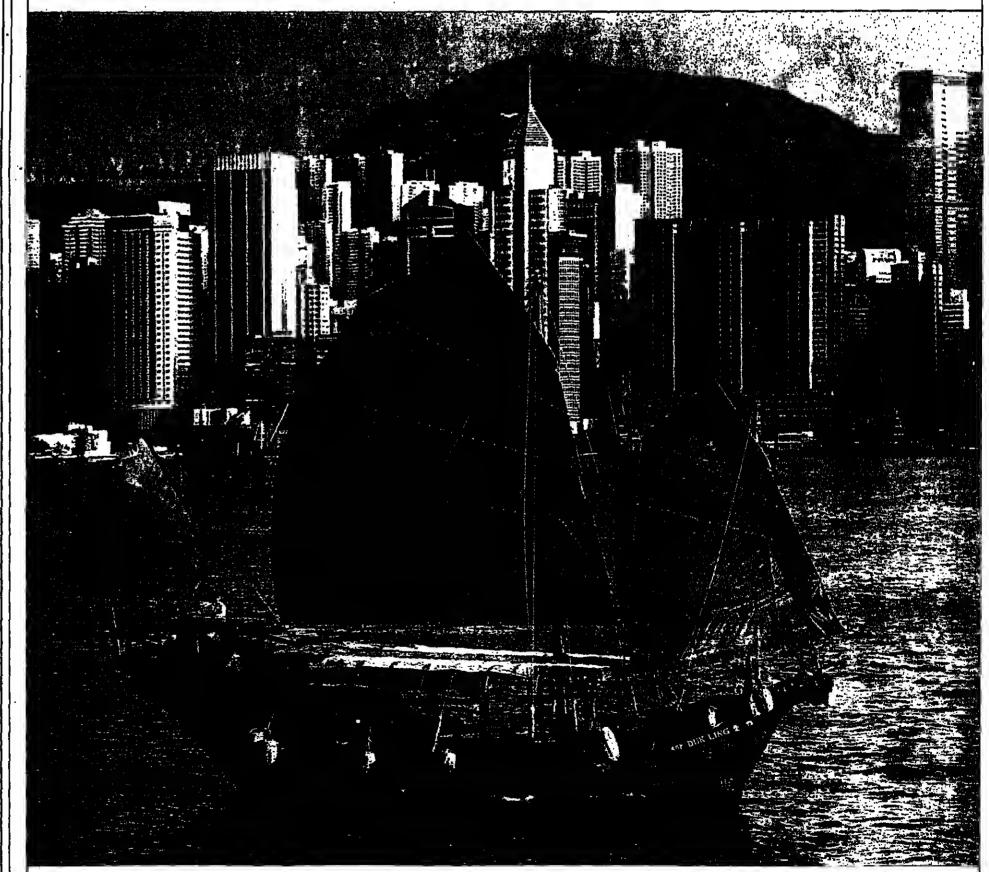
Michino Nakamoto, Tokyo Australia to fund Mekong bridge

Australian ministers said yesterday that they had given the final go-ahead to an ASSam Mekong River bridge project at My Thuan, in southern Vietnam. The bridge will be funded by the Australian and Vietnamese governments, with Australia Contributing about ASSAM Over four years Contributing about ASSAM Over four years. contributing about ASSSm over four years. Construction, which will be managed by an Australian firm, is expected to begin in June 1997 and take about three years. About 20m of Victiam's 7.1m people live in the Mekong delta and depend on

Australian funding for the 1.360-metre bridge will come from AusAid, the Australian government's international aid arm, and represents the largest infrastructure project it has undertaken to date. The project is designed to assist the building of managing links because the countries. When ferry services. building of economic links between the countries. When Vietnam first opened up, a number of large Australian companies seized investment opportunities there, although business attitudes have become more ambivalent as a number of products and transfer and tr business attitudes have become more and to get off the of projects and joint ventures have failed to get off the Nikki Tait. Sydne

■ Canada and Australia yesterday signed a trade and economic enoperation agreement, designed to expand these between the two countries. The agreement coincided with a vicit to Augustia be Market and Charles and Cha visit to Australia by Mr Jean Chretien, Canadian prime minister.

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The government's programme 'Smooth transition' is sought for Hong Kong Nuclear deterrent will be maintained

Digital TV to be given early go-ahead survives

The government plans to push ahead almost immediately with its bill to ease restrictions on cross-media ownership and to introduce digital television. The new Broadcasting Bill is likely to be introduced in the

The main sense of urgency comes from a desire to launch digital terrestrial television as quickly as possible. It should be able to offer at least 20 new channels of television to most parts of the country. There is thought to be a "window of opportunity" for the terrestrial technology before 120-150 cbannel digital satellite systems due for launch in the UK early in 1997, take too strong a fcothold.

Digital terrestrial will never be able to compete with digital satellite on number of channels but it can offer high quality wide-screen pictures without the need of a cable oetwork or satellite dish. The service can be received on e ordinery set-top aerial although e decoder will be

There has been considerable criticism of the Government'e digital terrestrial plans first announced in August. The lack of e firm date for the transition from the existing analogue system to digital - whether 10 or 15 years into the future - has been criticlsed. There have also been complaints that

being given enough digital capacity as of right.

The details of proposed changes to the cross-media ownarship rules to allow stations for the first time, and vice-versa, have also turned

support for the idea that technology is driving a degree of convergence in the media

industries.

But the Government's proposele to exclude proposele to exclude newspaper groups with more than 20 per cent of national circulation has angered Mr Rupert Murdoch's News International and has irritated the Mirror Group. Both of them would be prevented by the circulation threshold from owning ITV companies.

Regional newspaper groups are also angry that they will be unable to own television stations in their regions if they supply more than 30 per cent of circulation there.

The television industry will examine the new broadcasting bill particularly carefully to see wbether the government bas changed its mind on ownership of television companies. It said in May it thought the present ban on any company owning more than two broadcasting licences should stay. There has been intense lobbying to have the limit set instead at 25 per cent

Empire is lost but ceremonial

The Howard Pursnivant Extraordinary was there as were Bluemantle Pursuivant and Portcullis Pursuivant. There was also room in the crowded halls of the Houses of Parliament for Gold Stick in Waiting, Silver Stick in Waiting, the Gentleman Usher to the Sword of State and the Captain of the Honourable Corps of Gentlemen at Arms. Those are all the names of ettendants at yesterday's cerenonial at Westminster, and tradition requires some of them to walk backwards.

Prince Philip, busband of the Queen, said in a newspa-per interview last year about the role of the royal family in modern nation: "I don't think anyone would actively volunteer for this sort of job. He might have had in mind the antiquated ceremony, re-enacted yesterday, in which the monarch makes her annual visit to Parliament.

With her for the state open ing of parliament were a col-lection of politicians and ambassadors in suits plus e crowd of lords and officials whose costumes could have been borrowed from Alice in Wonderland and whose titles could have been invented by a scriptwriter for a Monty

Python sketch. The state opening was shunned for many years in the 19th century by Queen Victo-ria, but revived by her advisers at the peak of Britain's industrial and imperial power.



The Queen and Prince Philip visit Parliamen

Although Britain has lost an empire, it has kept the ceremo-

Behind the state opening lies e complex reaffirmation of the complex relationship between the monarch and parliament e relationship which suffered its most brutal disruption in 1649 when the Queen's ancestor King Charles I was exe-

cuted at the behest of his opponents in Parliament.

Yesterday's ceremony Westminster underlined the submission of the nation's legislators to the Queen as head of state, But although described as "the Queen's speech" her words were written by government officials and approved by the cabinet.

'My Lords and members of the Commons...

Extracts from the Queen's speech to Parliament

Nato: National security remains of the highest imporremains of the nighest impor-tance to my government. They will continue to support the North Atlantic Treaty Organi-sation and to promote Britain's wider security interests by con-tributing to the maintenance of international peace and stabil-

ity.

The United Kingdom's minimum nuclear deterrent will be maintained. My government will encourage a co-operative relationship between Nato and Russia, and will offer further belp to countries in central and eastern Europe to consobbuild stability and prosperity

in the region Weapons: My government will continue to work to preserve and modernise the Conventional Forces in Europe Treaty. During their presidency of the Western European Union next year, they will work to enhance that organisation's effectiveness. Preventing the proliferation of weapons of mass destruction remains a priority. My government will introduce legislation to ratify the Chemical Weapons Con-vention. They will pursue negotietions on a verifiable comprehensive test ban treaty and a Convention to ban the production of fissile material for nuclear weapons and other

explosive purposes. European Union: My government will participate in the 1996 inter-governmental conference and contribute to prepar-ing the union for further enlargement. They will work for the continued implementation of the principle of subsid-iarity and maintain their efforts to combat fraud. They will promote flexible labour markets and reduced social costs as the best means to improve the competitiveness of the European economy and create a climata for job cre-

government yesterday of pro-

posing tighter controls on

immigration and political asy-

lum as part of a lurch to the

right designed to mollify Con-

servetive party extremists, Kevin Brown writes. Outside parliament, demonstrators

threw flour and orange paint

over Mr Brian Mawhinney, the

Conservative party chairman, in a protest against the Asy-lum and Immigration bill. Mr Blair said Labour sup-

ported action against bogus

asylum applications. But he

urged the government to

defuse tensions by referring

effectiveness in peace-keeping will remain an important

My government will work to develop the capacity of the United Nations and regional organisations in the prevention of conflict. They will continue to promote a negotiated settlement in the former Yugoslavia. My government will maintain support for the Middle East peace process.

Hong Kong: My government will work for the prosperity and stability of Hong Kong. In the interests of the Hong Kong people, they will seak to co-operate with China on the basis of the Sino-British joint declaration in order to promote a smooth transition in 1997. ireland: My Government will continue to build on the present peace and to create the conditions for political progress through inclusive talks.
They will facilitate economic development and promote fair and equitable treatment for all people in Northern Ireland. They will maintain close and friendly relations with the gov-ernment of the Republic of Ireland. Legislation will be introduced to continue special provisions required for pres-

ing order. The economy: My govern-ment will continue with firm financial policies designed to support economic growth and rising employment based on permanently low inflation. Fiscal policy will continue to be set to bring tha public sector borrowing requirement back towards balance over the medium term. The share of national income taken by the public sector will be reduced. My government will promote further deregulation. They will introduce a Bill to extend choice and competition in broadcasting. Legislation will again be brought before you to authorise the construction and operation of a high speed rail link between London and the

erving the peace and maintain-

United Nations: Reform of the United Nations and efforts to enhance the organisation's Channel tunnel.

Asylum row erupts

The Labour party accused the the bill to a com-

is denied as senior man quits

'Friction'

By Raiph Atkins and John Gapper in London

loct

Mr Peter Middleton resigned last night as chief executive of Lloyd's, dealing a fresh shock to the 300-year-old London insurance market. His surprise decision to quit from tomorrow for a senior management role at Salomon Brothers, the US at Salomon Brothers, the US
investment bank, followed long
running bitterness towards Mr
Middleton by many of those
working et Lloyd's, including
members of its ruling council.
Mr Middleton, who joined
Lloyd's three years are from

Lloyd's three years ago from Thomas Cook Group, was seen as too sympathetic towards the thousands of lossmaking Names - individuals whose assets have traditionally supported the insurance market seeking compensation for

LLOYD'S OF LONDON heavy losses in recent years He was also criticised for fail-ing to understand the intricacies of the market and for forcing too many changes when Lloyd's was struggling to

ensure mere survival.

Lloyd's last night denied the resignation was caused "by any source of friction". Officials said Mr Middleton would have been attracted to Salo-mon by a salary well above the £320,000 (\$499,000) he received last year. He will be succeeded by Mr Ron Sandler, who was eppointed earlier this year as Lloyd's special projects direc

But Mr Middleton's depar ture comes at a particularly awkward time for Mr David Rowland, Lloyd's chairman, who is trying to see the implementation of the insurance market's already delayed recovery plan announced in May. It follows the unexpected departure in September of Mrs Rosalind Gilmore as director of Lloyd's regulatory department. Ms Heidi Hutter, head of the

Equitas reinsurance project, which under Lloyd's recovery plan will take responsibility for heavy liabilities on old insur-ance policles, has also announced her decision to

The resignation caused alarm among Names' represen-tatives. Mr Michael Deeny, Action Group, said: "He is a loss to Lloyd's and his departure is a worrying development." Mr Tom Benyon, director of the Society of Names, which represents lossmaking members, said Mr Middleton was an architect of Lloyd's recovery plan, and "to leave before its completion is quite extraordinary". Mr Rowland cancelled a

planned trip to Texas this week to deal with the ructions caused by his chief executive's abrupt departure, understood to have been decided last Fri-

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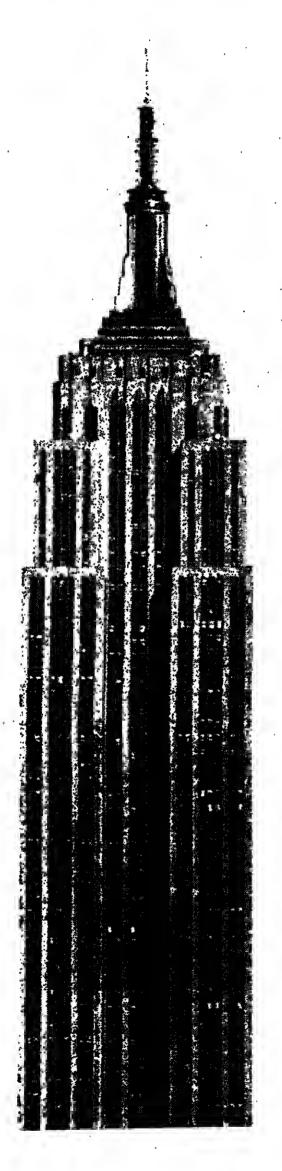


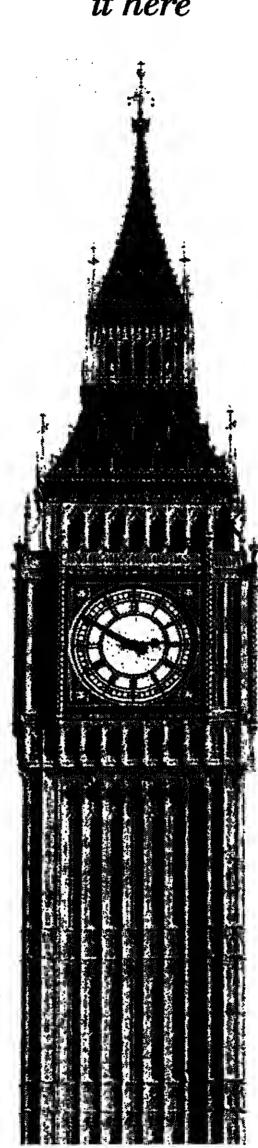
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NEWS: UK

Glaxo appeals against tax investigators

Accountancy Correspondent

Glaxo Wellcome, the pharmaceuticals company, is to go to the Court of Appeal in its fight to restrict the Inland Revenue's powers to collect back of the legislation." tax from multinationals.

Last week the Revenue won High Court support for its right to investigate Glaxo's tax affairs before 1986 - giving it access to details of thousands of past transactions.

Glaxo is trying to win its case against the tax authorities before the government changes the law in the forthcoming Finance Bill, putting the Revenne's rights beyond doubt.

Other multinational compa-nies with potential "long-tail" exposure to tax will hope that. if Glaxo can win in time, the government may have to intro-duce a time limit on the Reve-

Either side may want to take the case to the House of Lords in its role as the final court of appeal. "Glaxo is looking for a knock-out decision," said a tax expert. Mr Robert Berg, tax

the Court of Appeal finds something repugnant in what the Revenue is doing - an infringement of the rights of the taxpayer - it would have some influence on the course

The Revenue wants to look at Glaxo's past transactions with respect to "transfer pricing" - by which companies allocate taxable profit to the countries in which they operate. The High Court ruling does not mean Glaxo has been found liable for back tax, simply that the Revenue has the power to review past transactions to see if they have been accounted for.

Tax authorities worldwide have become more aggressive in recent years in trying to get their "fair share" from global companies. Estimates of total back tax UK authorities could

collect range as high as £1hn. The ruling confirmed that the Revenue can seek back tax from companies for tax years for which payments are not yet finalised, often for reasons unrelated to transfer pricing.

The economy Much of productivity gap with Germany has closed

Growth 'hampered for 25 years'

Britain's economy could have grown more than 25 per cent faster each year for the past 25 years if it had not been handicapped by poor economic manof Economic and Social Research says today.

The UK's gross domestic

product has grown at an aver-

age annual rate of 2.1 per cent

since 1970. But the institute estimates that this figure could have been 2.7 per cent if economic management had been at least as good as the average of the world's main economies This would have put it well ahead of Germany, France and other European countries instead of falling behind in terms of growth rates. The institute finds that the sharp fall in the proportion of the labour force with no educational qualifications from 70 per cent in 1975 to 44 per cent in 1993 and the rise in the

number of people in higher education are likely to boost

the UK's long-term economic But it says that poor stewardship of the economy has led to a cyclical pattern of short booms and long recessions which have harmed growth. Mr Nicholas Oulton, senior

Real GDP growth Annual percentage change, seasonally adjusted.

months. Subdued earnings

although "policy remains subject to manipulation for research fellow at the institute says in the institute'a latest economic review that the polishort-term political gains". The institute shows that UK cies put in place after the pound left the European annual manufacturing produc-Exchange Rate Mechanism could lead to greater long-term stability and higher growth, tivity growth slowed from 4.14 per cent between 1960 and 1973 to 1.01 per cent between 1973

Growth in average earnings remained subdued in September, but this was not enough to prevent the biggest rise in industry's labour costs for almost four years, our Eco-nomics Editor writes. Average weekly earnings grew by an underlying 3.25 per cent in the year to September, the Central Statistical Office said yesterday. This was the same rate of This was largely due to a reduction in trade union power as a result of legislation in the In a separate article, the

institute shows that three-quarters of the productivity gap with Germany and France that existed in 1979 has now It says that British produc-

productivity growth has risen

to 3.95 per cent per year, faster than in any other Group of

Seven country except Japan.

tivity has been poor in indus-tries requiring technical and managerial skills, in industries organised on a large scale and in industries prone to strikes.
In a comparison of UK unit wage costs with those in Germany, France and the US, the institute finds that Britain has generally relatively low unit labour costs in consumer goods industries and relatively high unit labour costs in much of the engineering sector.

growth in manufacturing has helped restrain increases in British productivity is found to have shown a steady improvement ralative to France and the US, while ster-The volume of goods bought in Britain's shops fell unex-pectedly last month, as unsealing's devaluation after it left sonally mild weather allowed the ERM in 1992 gave Britain a substantial competitive advanople to delay the revamping of their winter wardrobes. The volume of retail sales fell by tage in 1993 against other European countries but it remained at a disadvantage 0.1 per cent between Septem-

Unions at Ford reject improved 2-year pay offer

Intensive negotiations were continuing last night between trade unions and Ford management to reach agreement on a two-year pay deal for the company's 22,000 manual workers in Britain. Management earlier improved its initial basic wage offer from 3 per cent to 4 per cent from this month, plus a further rise in line with the level of the retail price index in November next year. Union officials rejected the offer, insisting on a cut in working hours.

Unions are demanding a 10 per cent rise on basic rates and a reduction in the basic working week from 39 hours to 37 hours. But Ford has so far refused to make any move at all on the hours' issue. Unions argue that Ford has benefited from substantial productivity improvements at its 12 UK plants in recent years compared with its German units.

The outcome of the Ford negotiations look increasingly dependent on events at Vauxhall, the UK subsidiary of Gen eral Motors, where 10,000 manual workers are now being balloted on whether to take industrial action after rejecting a 3.5 per cent pay offer from this month. The result of the Vauxhall vote will be known next Monday, but union officials at its British plants are already privately saying they believe workers have backed by a heavy majority a call for industrial

Robert Taylor, Employment Editor

Crane company to expand

Liebherr, the German crane manufacturer, is to create 130 jobs and almost double its site in the north-east England city of Sunderland to 5ha in a 25m expansion prompted by strong export demand. The Sunderland site is the company's main manufacturing base for ship cranes, and exports 85 per cent of its output worldwide. It now employs 120 people. It also makes cranes for the offshore industry.

Liebherr is to receive £950,000 in UK government Regional Selective Assistance and a £300,000 business development grant from the Tyne and Wear Development Corporation towards the £5m expansion. The expansion will bring to £20m the sum invested at Liebherr's site since it moved onto former shipyard land in 1989.

Chris Tighe, Neucostle upon Tyne

Ro-ro capacity to rise

The Port of Hull in north-east England is to double its capacity for roll-on, roll-off North Sea freight at its King George and Queen Elizabeth Docks. Hull opened a £12m ro-ro river terminal in the Humber two years ago to save ships having to lock into the port's docks, but it is already at full capacity, with short-haul European ro-ro traffic now accounting for 40 per cent of Hull's throughput of 10m tonnes of freight a year. Mr Mike Fell, port manager, said the dock expansion was specula-tive. Associated British Ports, which owns Hull, hopes to attract enough regular users to justify building two more river

Ian Hamilton Fazey, Manchester

Car parks are the most likely

Thieves target car parks

places for car theft, according to a survey of 30,000 drivers for AA Magazine, published for members of the AA motoring organisation. One in five had a car broken into last year and one in 14 had their vehicle stolen. Government figures for England and Wales, however, the past 12 months - largely because of increased use of security devices. That, in turn, has eocouraged cuts in motor insurance premium rates amid fierce competitioo spearheaded by telephone-based insurers. Some 62 per cent of

Source: AA Magazina those whose car had been broken into did not claim on insurance policies, the AA said, probably because of the amounts involved were small or because drivers wanted to protect "no claims" discounts on policies.

Ralph Atkins, Insurance Correspondent

Smuggler jailed: A salesman who hid two illegal immigrants in the boot of his car was jailed for three years. Mr Jonathan Devito of Ightham, Kent, told Customs officers at Dover docks in England that he had been on a day trip to France. But when officers searched his hire car they found two Turkish men in the boot. He denied facilitating illegal entry, but a jury found him guilty. The immigrants have been deported.

Monster hit: A Hollywood film about the Loch Ness Monster could bring record numbers of tourists to Scotland next year, tha Scottish Tourist Board said. Loch Ness, to be launched in February, features Cheers star Ted Danson. The board said Medical Scottish Tourist Board said Medical Scottish Telephone Scottish Telep Gibson's portrayal of Scots hero William Wallace in Brave heart and Liam Neeson's Rob Roy had given Scotland's tourist industry a big boost.

CONTRACTS & TENDERS

REPUBLIQUE DU SENEGAL

MINISTERE DE L'ECONOMIE, DES FINANCES ET DU PLAN Celiule de Gestion et de Contrôle du Postefeuille de l'Etat

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SUNACOS is an integrated grounding processing, vegetable oil refining, and marketing company. The decision to seek a single strategic investor or consortion for this enterprise s a broader initiative to promote eco

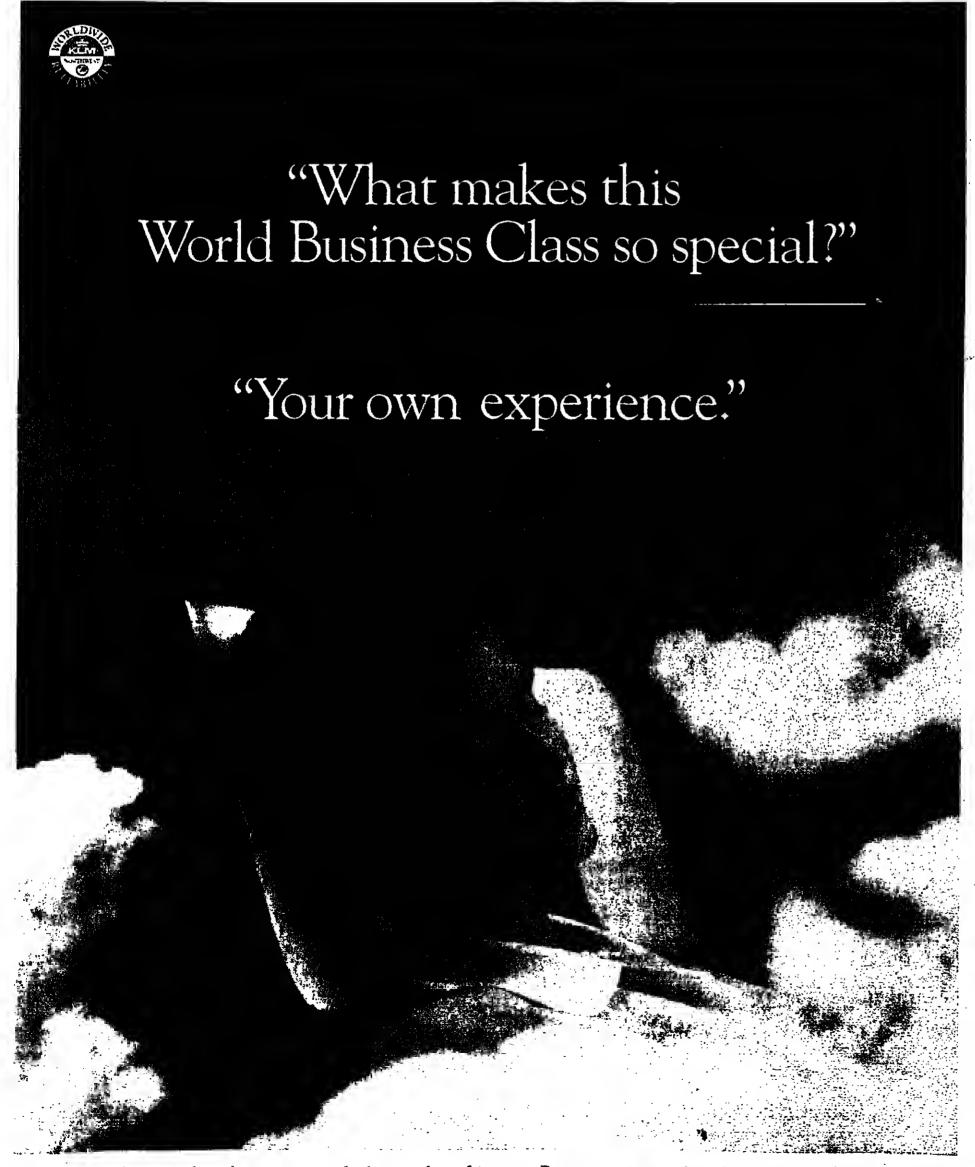
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TECHNOLOGY

Keeping in good heart

Owerful new evidence that cholesterol-lowering drugs can reduce mortality from heart disease was presented to the American Heart Association

meeting in California yesterday. The West of Scotland Coronary Prevention Study followed 6,595 middle-aged men, who had high blood cholesterol levels but no previous heart attacks, for five years. Half took pravasta tin, made by Bristol-Myers Squibb of the US, and the other half took dummy tablets.

The results showed 32 per cent fewer deaths from heart disease (and 22 per cent fewer deaths from all causes) among the group whose cholesterol levels

were reduced by pravastatin.
The study, funded by BristolMyers Squibb and conducted
independently by Glasgow University, extends evidence shown last year by a five-year clinical trial in Scandinavia with a simi-lar drug, Merck's simvastatin. However, the Scandinavian study, unlike the Scottish one, involved people with a history of heart attacks and/or angina. Statins, a class of drugs intro-

duced in 1987, work by interfering with a liver enzyme called HMG-CoA that the body needs to produce cholesterol. Four sta tins are competing in a \$4bn (£2.5bn) a year cholesterol-low-ering market. Merck is the leader with two, simvastatin and lovastatin, while Bristol-Myers Squihh has pravastatin and Sandoz of Switzerland has fluvastatin.

Kenneth Weg, president of Bristol-Myers Squibh Pharma-centical Group, says the West of Scotland results should improve "patient compliance" by demonstrating the benefits of pravastatin in primary prevention.

James Shepherd, professor of

pathological blochemistry at Glasgow University and lead investigator of the West of Scotland study, says the results do not alter the fact that "the first line of attack for elevated levels of cholesterol should always be to modify diet and lifestyle. Only if that fails should you go on to drug treatment."

Clive Cookson

n an ordinary street in the southern California town of Escondido stands a brown, A-shaped build-ing. The sign outside says only North County Bank; another kind of hank shares the premises, although it does not advertise its presence. Tucked inside the huilding is the Repository for Germinal Choice, a sperm bank that stores the seeds of Nobel laureates and others deemed brilliant by Robert Graham, the 89-year-old founder.

In his two-room office, adorned with smiling pictures of the repository's offspring, many with hlue eyes and blond hair, Graham talks enthusiastically about "improving" humanity hy spreading the seed of "outstanding men" who have "top-notch genes".

In the next room sit the tanks of liquid nitrogen containing the fro-

Graham and his administrative assistant, Anita Neff, believe they are on a bumanitarian mission. "Wa are in favour of more bright people because then we can increase the number of people who have the capability of doing something con-structive in the world," explains Graham. Nearly all the donors have an IQ of 130 or above, a genius-level score, they claim. The mother's qualities are curiously absent from the conversation.

The donors, whose identities are never revealed, are not paid and only married women whose busbands are infertile can obtain the sperm, at a cost of \$3,000 (£1,900). We enable the wife to become a mother. It gives the youngster the best possible start in life because he has top notch genes," says Graham. "And it gives the outstanding sperm donors more offspring, so everybody

The donors include an Olympic gold medallist and many "brilliant scientists", he claims. Donors are identified hy colour and number along with descriptions of such criteria as general health, personality, ancestry, eye colour, skin and hob bies. One comes from a family of "mathematical geniuses": another "comes from a long line of talented professional Individuals and has the energy and ambition to match his exceptional gifts".

Graham says he combs through Who's Who of Emerging Leaders in America and goes to medical meetings to "look over the doctors. I approach the ones who are young and look good and are leaders in their field"

More than 200 children can trace their paternity to the repository, says Graham. Three donors havs each "fathered" 20 children, ths maximum. All the children are exceptional, hs claims, "They are very intelligent and gifted based on the report of the parents, who are proud of their little darlings, and Marjorie Shaffer visits a sperm bank claiming to store 'top-notch' genes

and remains unconvinced Seeds of controversy



their teachers."

Lee Connealy is a physician specialising in family medicine who has three children thanks to the repository's sperm. Her husband, a usinessman, had had a vasectomy. She says she chose the Olympic medal winner as the donor because he resembled her husband, a physically active man who comes from a family that, like hers, has "good

There is a lot of testing and investigation of the donor," says Connealy. She didn't want to use an ordinary sperm bank, because "the repository really chooses people who have the same traits as I have, rather than just anybody off the street". She adds: "My kids are absolutely adorable and there is no question that there are good genes

involved. It is very obvious when you have good genes. I come from a family with good genes. We are all healthy. No one has committed suicide, no one drinks or smokes, and no one is gay."

Most biologists dismiss the notion

that there is anything remotely like "genius" or "smart" genes - or for that matter even that dubious quality called "good" genes. While genes may play a role in intelligence and other behaviours, it is the interplay of the environment and heredity

that moulds us, they say.

"No one knows just what role genes play in intelligence – there may never be an answer," says Evan Balaban, a researcher at the Neurosciences Institutte in San Diego. "We doo't understand what genius is a product of and we have

Teamwork.

Initiative and

problems defining what we mean by intelligence. Even if genes have a large effect, it may be due to a par ticular combination of genes that can't be passed on to your offspring because we produce sexually," he says. In sexual reproduction genes are recombined in each new genera-

Graham, a millionaire optometrist who invented plastic lenses. founded the sperm bank in 1980. He concedes the role of environment, hut "the tendency is for high intelligence to beget high intelligence and

we are out to help it". He says most people are "deficient in 1Q".

The idea of "improving humanity" hy "better breeding" echoes the credo of turn-of the century eugenicists who believed that a superior race of men could evolve by increasing properties among the group. ing procreation among the exceptionally gifted. The idea has also

been used over the years to justify barbaric ends such as genocide. In the early 1960s Graham met Hermann J. Muller, a eugenics pro-ponent and Nobel Prize winner who proved that X-rays cause mutations, to discuss a repository. Although Muller is listed as the repository's co-founder, he abandoned the project before it was set up, according to In the Name of Eugenics by Don-ald J. Kevles. Muller, who died in 1967, never donated.

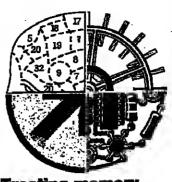
At first Graham tried to collect sperm from Nobel laureates only. Although most turned him down, three did agree to donate, ha claims, and one even revealed his name to the press. That laureate, physicist William B. Shockley, once advocated sterilising people with low iQs. Eventually other donors had to

be approached. Nobel winner James Watson, the co-discoverer of DNA's structure, says he was never asked to donate his sperm, even though he is one of the scientists who were to be among the original contributors to the repository, according to an "agree-ment" signed by Muller and Graham that hangs in the office in

Escondido "Almost everyone agrees that some component of our success is due to our genes, but what fraction that is is very hard to work out,"

says Watson. Arthur Caplan, director of the Centre for Bioethics at the University of Pennsylvania Medical Centre, says he is surprised Graham has not been criticised more widely. "There is a tendency to dismiss him as a fringe person involved in a nutty or cute activity," he says. "I think it is morally pernicious. We are moving quickly towards an entirely different level of genetic engineering, and as science learns the secret of the gene and begins contemplating putting genetic information into the sperm and egg, the dsbate about Graham should be taken more seriously."

Worth Watching · Vanessa Houlder



Treating memory ioss in Alzheimer's

Scientists have identified another possible approach to treating nemory loss suffered by Alzheimer's disease patients, according to a report in today's Nature magazine. The work concerns

corticotropin releasing factor (CRF), a neuropeptide associated with learning and memory in rats, which is often at relatively low levels in the brains of people with Alzheimer's disease.
Past attempts to develop drugs

that mimic the effect of CRF have failed because they had unwanted side-effects, such as anxiety. A different approach was adopted hy scientists at Neurocrine sciences in San Diego, who studied the balance between free CRF in the brain and the proportion that was occupied by a binding protein, known as CRF-BP

They found that concentrations of free CRP in the brain can be increased if the interaction between CRF and its binding protein is blocked using peptides. These blocking peptides were shown to enhance learning and memory without inducing anxiety in rats, which suggests they could potentially have a role in treating the effects of Alzheimer's disease. Neurocrine Biosciences: US, tel. 6196587660; fax 6196587602.

Electronic nose knows best

A second generation of the "electronic nose" – a device that mimics the human sense of smell - has been unveiled. It offers more consistent results than earlier models. The electronic nose uses sensors made of polymers that temporarily change their electrical resistance when . they absorb volatile molecules from the air. Neotronics Technology has

developed a production technique

capable of precisely controlling the structure of the sensors and reducing their sensitivity to factors such as humidity and

It expects the new system to find applications among manufacturers that need to control the quality of products nanufactured on multiple sites. Neotronics Technology: UK, tel (0)1279 870182; fax (0)1279 870377.

Smartcard under examination

Schlumberger has designed a high-security portable smartcard terminal to streamline healthcare administration systems. The Medical Digital Assistant uses Apple Computer's Newton handwriting-recognition technology. The system is designed to preserve the security of patients' records. Doctors and nurses "sign" electronic documents using an encrypted identity card.

Countries such as France and Germany are introducing smartcards into their national healthcare systems to improve efficiency and combat fraud. Schlumberger Industries: France, tel 47467020; fax 47466866.

Movement on arthritis front

Results of a study involving a promising new treatment for rheumatoid arthritis were announced yesterday hy the US biotechnology firm Immunex and the University of Alabama at Birmingham, which conducted tha trials, reports Victoria Griffith.

The new drug aims to block tumour necrosis factor (TNF). which is thought to play a key role in causing painful inflammation in rheumatoid arthritis patients. Of patients receiving high doses of the inhibitor, 64 per cent showed reduction in painful joints and 58

per cent in swollen joints. The commercial potential for an effective rheumatoid arthritis drug is enormous. About 1 per cent of the world's population suffers from the disease, which usually hits patients in their 30s and 40s. Rheumatoid arthritis can be an extremely serious disease that may eventually cause crippling. Immunex's TNF inhibitor will now move into Phase III trials.

Immunex: US, tel 206 389 4040; fax 206 587 0606.

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Excellence in Contribution to Individual and Class Learning: "IMD ON-LINE" For educating their classmates on the power of the Internet and its numerous business opportunities. Team members: R. Keane, B. Knecht, L. Somerville, C. Staby, S. Tripathi, R. Yachini

Excellence in Adding Value to Target Audience: "GOOD TIME BAND" For organizing a performance of international srtists at a centre for disabled children and young adults. Team members: R. Casale, C. Christensen, S. Komiya, H. Lo, L. Ong. J. Sequira

Excellence in Overall Performance and Setting Ambitious Goals: "A SMILE TO REMEMBER" For hringing theatre and joy to 2500 children in refugee camps in the former Yugoslavia. Team members: F. Anabtawi, K. Berknov, C. Hsu, T. Hussain, J. Pitman, F. Riston, M. Riva, G. Roelofs, A. Schuurman



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BERLIN THE REPORT OF THE PARTY OF

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CPERA & JAY HE TYA Oner Derite

indsay Anderson described his film If as "something like the writ-

ing on the wall." Mat-

thien Kassovitz's La

Haine, which won the Best Director prize at Cannes this year, is the same but more: two hours of heavy

action with a cinematic graffiti-gun and the most vivid first film from

The walls being sprayed by the movie's hlack-and-white energy

and observational wit are in and

around a hattered Paris housing

estate. Kassovitz has clearly set out

to make a film about violence that

says. "A plague on everyone's house": including those pundits

who claim that racism is the key to

modern thuggery. The three youths who tramp the bantieues in violent

solidarity are an Arab (Said Tagh-

maoui), a Jew (Vincent Cassel) and

a black African (Hubert Kounde). They offer a two-finger gesture not just to les flics but also to the eth-

nic bigotries of the Front Nat-

ionale. Armies of all-purpose teen-

age revolt should stick together; the sword is mightier than Le Pen.

Their current grudge is against the police who heat up a local

youth, causing a street riot and later the boy's death. A captured

police gun, a wrecked gymnasium, a scene depicting their own brutal

encounter with police interrogation

methods - the story stabs out its

France in recent memory.

Teenage revolt runs amok in Paris

punctuation points. But the real "plot" happens in the faces, the dialogue and the nervy, manic camera-

The three youths have clearly overdosed on popular culture, this being the age of Saint Quentin Tarantino. One does De Niro's "You talkin" to me?" routine from Taxi Driver into his bathroom mirror. Two others quarrel over which was the more make content of the party of the more make content of the party of the more make content of the party of t the more macho cartoon character, Sylvester or Tweetie Pie. In another scene still a semi-crazed drug-dealer they visit plays Russian roulette, as if his formativa experience was The Deer Hunter.

In this world, play-acting and apocalypse are in fragile equilibrium. A funny story told by one of the boys, of a man falling from a tall building who says at each sto-rey "So far, so good," becomes the film's subliminal leitmotif. Urban doomsday may be approaching fast, but today's youth is carrying on regardless, with a hectic in-your-

The on-rolling rhythm of the handheld camera suits style to mes-sage. Its momentum takes in sidesion) and crunchpoint showdowns (a last-scene double shooting) with the same brash, anaesthetised filan. And the three main actors have a precipitate restlessness that seems to have tumbled straight out of

reality onto the screen.

La Haine does indeed seem like the writing on the wall, in a world where there is little to choose between the so-called victims and their supposed oppressors. The film's own most prominent graffito, dwelt on wryly in an early shot, presents modern youth's most chilling assurance for tomorrow: "L'avenir, c'est nous."

A Walk In The Clouds is a consum mately cuckoo film from the director of Like Water For Chocolate. Alfonso Arau must have had "Magical Realist" stamped on his birth certificate, dooming him to years spent dealing out tales of unrequited love, natural miracles and Latin folk living in Vaseline-lensed

Keanu Reeves, the cast's token non-Hispanic, returns from war in

LA HAINE Matthieu Kassovitz

A WALK IN THE CLOUDS Alfonso Arau

> INSTITUTE BENJAMENTA **Quay Brothers**

KASPAR HAUSER Peter Sehr

1940 only to be dragged hehind enemy lines in the Great War of Love. A pregnant señorina ha meets on a train (Aitana Sanchez-Gijon) persuades him to masquerade as her husband, so she can return home without being hit by Papa's thunderbolts. Since Papa is played by Italian actor Giancarlo Giannini, who would need surgery to stop him scowling, we get the thunderbolts anyway. And since his papa is played by Anthony Quinn, you can imagine what life is like at

growing estate, once Reeves decides to stay on and fall in love. He ends up trying to save the hundred-acre vineyard from the fastest special-effect fire in history. You never witnessed such wetshirt-flapping workers, such per-spiring grange faces of onlookers, such cartoony-looking flames devouring so ditto a hill, and such music rising like rapturous cinders on the thermals. That the press show audience was giggling help-lessly by the close only shows that magical realism is a delicate thing: beautiful when it works, barmy

Institute Benjamenta is also barmy, but by design. The Quay Brothers are American-born, UK-based filmmakers whose strange shorts -Street Of Crocodiles, The Comb, The Cabinet Of Jan Svankmajer - use model animation to conjure creepy Gothic worlds brimming with mid-

when it doesn't.

dle-European bric-à-brac. Now they have gone live-action and feature-length, but they still seem to be overdosing on Kafka and Mervyn Peake. The title instiinte is a school for apprentice servants where, amid spooky sets filmed in black-and-white with the fuzzy luminosity of old silents, pupil Jakob (Mark Bylance) tries to rescue teacher Lisa (Alice Krige) from the repressive influence of brother and headteacher Johannes

(Gottfried John). For 20 minutes we are captivated by the deranged eccentricity of the by the deranged eccentrative of the place; the knock on the front door that is answered by a monkey, the mysterious mottoes hung on the walls ("Whatever is forbidden lives a hundred times over"), the glass case containing "Powdered ejaculate of city." late of a stag."

But then the gags run out and the minimalism, of story and drama, rushes in. Every creaking line of dialogue is given its echo chamber in time and space; every gesture is drawn out on the rack of quirky overemphasis. Perhaps the Quays thought the result would be hypnotic. But hothouse fantasy worlds need to be kept busy and distracting if we are not all to review the film next week.

sit around feeling a touch of the

We are still to central Europe to Kaspar Hauser. Peter Sehr's film does for the true-life tale of the foundling "wild man" who shocked Nurembergian society in the 1820s what Werner Herzog's same-subject film wisely refused to do. It uses meticulously argued historical detail to speculate on the story.

Was Kaspar a Crown Prince's hastard son? Was he sold to a Bavarian minister? Did he become a pawn in German state politics?
Since we completely to fail to follow the ins and outs of these – two leading figures called Ludwig do not help – we neither know nor greatly care. Herzog went for the dramatic jugular: making Kaspar a tragicomic catalyst for all our dark thoughts and feelings about nature versus nurture. Sehr's film is more like an education pack on German social-political history that has

spilled all over your desk. The Scarlet Letter opens in Britain this week without any preview screenings for tha press, despite its impressive above-the-line contributors: director Roland Joffe, stars Demi Moore, Gary Old-man and Robert Duvall, writer Nathaniel Hawthorne. Is something being hidden from us that we should know? I shall catch and

wan Lake is not only the most popular of ballets, it is the most mauled and misunderstood. From its first staging, in Moscow in 1877, score and narrative were subject to revision, and subsequent history has been of constant tinkering. Five versions in Moscow between 1900 and 1924 is no record: of recent years it seems that every ballet company has had to have a staging, so insatiable is public appetite for swan feathers and lush melody. And every company must bave its own individually butchered presentation. So we have had Prince Siegfried as an opium-freak and as Ludwig of Bavaria; von Rothbart as villainous tutor, as alter-ego, even as mother-figure; productions modernised, productions aiming to give "wbat Tchaikovsky intended", and any other mayhem that the arrogance of a producer can conceive. What has been evident on every occasion is that the recension staged in Petersburg in 1894/5 by Marius Petipa with Lev iva-nov is still unrivalled, because

phy and cogent dramatics. Now, amid rather too many raged" critics and ballet-lovers in a tizz, we have a moderndance version by Matthew Bourne for his Adventures in Motion Pictures troupe with on in-drawn breath - Men as Swans! What I saw on Tuesday night at Sadler's Wells is a curious and intriguing mixture of the imaginatively good and the blatantly under-done.

blessed with superb choreogra-

Bourne has modernised the setting while retaining much of the original narrative. The period - to judge by the hideous clothes - is the 1960s. A prologue shows us the child Prince Siegfried beset by royal duties and dreaming of a swan as symbol of freedom. Grown to manhood, he finds the royal round no pleasure. The relationship with his mother is Hamlet-ish: the shadow of Mayerling, which matches Swan Lake's theme of ideal love found only in death, lies dark over the stage. A Private Secretary is von Rothbart (and, in another Mayerling gloss, Count Taaffe, with the Prince's "girl-friend" as Mitzi Caspar). After a visit to a seedy club more Mayerling - the Prince (Scott Ambler) visits a lake and contemplates suicide.



Dance/Clement Crisp

The adventures of boys as Swans

Thus far the staging has been typical of AMP's manner in its jokiness and absence of choreographic interest. The ection rattles from scene to caricatured scene in Lez Brotherston's clever design, while poor Tchaikovsky is mauled unmercifully. But with the appearance of the swans, the piece becomes musically responsive, mysterious. Bourne is no Ivanov, but his cohort of male swans (chaps naked save for feathery breeches, black v-shapes marking their foreheads) takes to the stage, and we believe.

Swans are large, powerful and sometimes belligerent birds. Bourne has found imagery that conveys this avian nature, and because there is

nothing either graceful or emo-tional about their manner, they appear absolutely swanlike. Far more so than the usual ranks of tutu-ed girls, and never more so than in Adam Cooper's remarkable playing as the swan who incarnates Siegfried's dreams of liberty. Cooper has ever been a dancer of focused presence, and his portrait is untouched by human feeling: it is truly a bird, and all the more potent for that. Nor, be it gratefully noted, is there the least strain of homo-eroticism in the dance. The narrative is what it is, and no "gay" sub-text need bother us in the relationship of the

as shifty as their manners. (So unexpected.) There arrives Cooper in black - leather trousers as blatant as his sexuality - to make advances on every woman there, including the Queen. He is both Eros and Chaos, and the Prince views the entire scene as an orgiastic nightmare in which the symbol of his desire for freedom is destroyed. (In a brilliant touch, Cooper smears cigarette ash on his forehead to evoks the swan-marking: an exact reflection of Odile's mimicry of Odette's swan-like pose.) The act ends with the Private Secretary shooting the Prince's prince with the Swan. The third act ball reverts, girl-friend. This is dramatically swans, of the lake-side tragedy, initially, to the coarseness of odd, but serves to send the is powerful and original. I find

the first scene: these are an odd lot of royals, with morals to his bed, he sees visions of to his bed, he sees visions of the swans. They attack him. then attack and kill their leader (Cooper). The Prince dies, his mother grieving over him, while the apotheosis shows Cooper and the Prince united at last.

As an up-dating this Swan Lake is, against all the odds, a success. Bourne clearly wants the court scenes to be as hallucinatory as the lake-side encounters, but he has not found a choreographic language as effective as his writing for the swans. What he imposes upon Tchaikovsky in the first act in barely forgiveable. But his vision of ths

it preferable to many of the lumpen activities offered by companies who foist ineptitudes on the public in the name of tradition. Here, in Bourns's imagery, is some-thing anthentically tragic, attuned to Tchaikovsky's mysterious world. And with Adam Cooper, the role of the Swan has commanding power and resonance.

Among the other players, Fiona Chadwick makes much of the Queen, and Emfly Piercy has s good deal of fun as the Prince's bimbo girl-friend. The score is well played under David Lloyd-Jones.

Swan Lake is at Sadler's Wells, London N1 until November 25.

Theatre/Alastair Macaulay

Mother Courage as Elsie Tanner

Thather Bertolt esting in (forgive the pun) exe Brecht's famous play Mother Courage will stand or fall is decided at each performance by the account given of its title role. Diana Rigg, who has assumed the role at the National Theatre, has its grimhomour and its indestructible stamina. Other Mother Courages would give much to have her fabulous log-like cheekbones, her hard jaw, her depth of voice. She really makes many of M.C's tough jokes funny. And her singing, though uninteresting, has the same authority as everything

else she does. Alas, these assets are not enough. Brechtian acting is by no means about soul-baring: but nonetheless many performances in his plays have displayed moving qualities of sheer human essence. There are some nice instances of this elsewhere in this production. When Lesley Sharp, playing Courage's dumb daughter Kattrin, scrubs a dirty shirt with changing rhythm while gazing with growing desire at a pair of handsome red boots, or when Geoffrey Hutchings, as the cook who starts to become Courage's latest lover, listens to tha offstage execution of Courage's son Eilif by firingsquad you see several layers of humanity powerfully and affectingly revealed.

When Rigg, however, plucks a chicken while conversing with the cook, or when she listens to the offstage firingsquad that executes her other son, you simply see a celebrated sctress making calculated theatrical effects. She speaks the role in a feisty Yorkshire accent and with the most gravelly area of her chest voice. Her Courage means to be a cousin of Elsie Tanner and Bet Lynch, a Northern toughie with a talent for hard repartee and no nonsense, a human institution on whom others depend despite her own private griefs, with the timing and irrepressibility of the musichall. Clever idea; but uninter-

cution. And the accent deprives us of the greatest beauty of Rigg's acting: her sculpted vowel sounds.

As a production, this Mother

Courage seems to be the sequel to two productions at the Almelda Theatre during the 1990s: the lauded Euripides Medea staged by Jonathan Kent (one of the Almeida's two artistic directors) with Rigg as the beroine and for which Jonathan Dove composed the unusually eloquent choruses. and the superb Brecht Life of Galileo, adapted by playwright David Hare, in which Kent again worked with Dove. In Mother Courage, Dove has intermittent success; some of the songs drag, but others notably those for the cook, chaplain, and young soldier in the bar - splendidly heighten the character of each person and animate the ironic complex folk-cum-vaudevilla singspiel quality of this drama.

Hare's version of the text,

like his for Gatileo, works mervellously. Brecht's timing, his characterisation, his wit are all vividly captured in modern English. Kent's staging suffers from some of the same over-attention to surface as his protagonist's performance. David Bradley's chaplain, James Buller as the soldier in the bar. Michael Gough's very old colonel, Hntchings's cook are fine performances; and Lesley Sharp's overwrought but absorbing Kattrin gives the most heartcatching performance of all. Several other roles, however, are far less well played; and there is some crummy singing. Paul Bond's designs and Peter Mumford's lighting work best when they simply emphasise the vast Olivier stage space. The costumes and props are a muddle, and the drastic highlighting of ksy dramatic episodes is coarse. Brecht needs better advocacy than is shown here.

In National Theatre repertory at the Olivier Theatre, London SE1.

INTERNATIONAL

■ AMSTERDAM

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2016-24

CONCERT Concertgebouw Tel: 31-20-5730573 Modigliani Sextet: performs works by J. Strauss, Brahms and Tchaikovsky; 2.15pm; Nov 19

■ BERLIN

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10 m/h²⁸

CONCERT Konzerthaus Tel: 49-30-203092100/

 Rundfunk-Sinfonleorchester Berlin: with conductor Heinz Waitberg and violinist Matthias Wellong perform works by Webern, Bruch and Tchalkovsky; 8pm; Nov

OPERA & OPERETTA Deutsche Oper Berlin Tel: 49-30-3436401 Die Zauberfiöte: by Mozart. Conducted by Sebastian Lang-Lessing and performed by the Deutsche Oper Berlin, Soloists include Bengt Rundgren, Gerd Feldholf, Barry McDaniel, David Knutson, Kirsten Blanck, Carol

Malone and Abbie Furmansky; 6pm; Nov 18

■ BOSTON CONCERT

Boston Symphony Hall Tel: 1-617-266-1492 Boston Symphony Orchestra: with conductor Bernard Haitink and pianist Murray Perahia perform Mozart's "Symphony No.33" and "Piano Concerto in E flat", and Ravel'a "Mother Goose", "La Valse" (Nov 18) and "Rapsodie Espagnole" (Nov 17, 21, 22); 8pm; Nov 17, 18,

COLOGNE

21, 22

CONCERT Köiner Philharmonie Tel: 49-221-2040820 Kölner Rundfunk-Sinfonie-Orchester, with conductor Peter Ectvos, baritone Dietrich Henschel and Martá Fabián on cymbals perform Sciarrino's "Soffio a Forma" (first performance) and Eötvös' "Atlantis" (first performance); 8pm; Nov 17

■ GENEVA

CONCERT Grand Casino Tel: 41-22-7319811 Doulce Pontes: gala concert by the Portuguese fado singer; 8.30pm;

■ GOTHENBURG CONCERT

Göteborgs Konserthus Tel: 46-31-7787800 Göteborgs Symfoniker: with conductor Gören W. Nilson and violinist Julian Rachlin perform Börtz's "Parodos", Mendelssohn's Violin Concerto" and Vaughan Williams' "Symphony No.6"; 7.30pm; Nov 23, 24 (6pm)

■ HOUSTON EXHIBITION

Contemporary Arts Museum Tel: 1-713-526-0773 Andres Serrano: Works

1983-1993; the first mid-caree survey of the artist Andres Serrano features 52 large-scale Cibachrome photographs. Serrano's subject matter includes the depiction of bodily fluids, religion, racism. homelessness and death; to Nov 26

■ LEIPZIG

OPERA & OPERETTA Oper Leipzig Tel: 49-341-1261261 Moses und Aron: by Schoenberg. Directed by Gerd Albrecht and performed by the Oper Leipzig; 7pm; Nov 18

LISBON

CONCERT Grande Auditório da Fundação Guibenkian Tel: 351-1-7935131 Meurizio Pollini: the pianist performs works by Chopin and Debussy; 9.30pm; Nov 19

LONDON

CONCERT Royal Festival Hall Tai- 44-171-0604949 The London Philharmonic: with conductor Matthias Barnert and pianist Anne Quetfélec perform Mendelssohn's "Piano Concerto".

Martin'a "The Four Elements" and Beethoven's "Symphony No.5"; 7.30pm: Nov 17 EXHIBITION

Tat: 44-171-6361555 After Marathon: Money, War and Society in fifth-century Greece: coins of the Athenian empire in the 5th century BC, as Athens rose as the predominant power in the Mediterranean world; from Nov 21 to

JAZZ & BLUES Royal Festival Hall Tel: 44-171-9604242 Stanley Clarke, Al di Meola and Jean-Luc Ponty: the bass quitarist guitarist and violinist join forces for the first time in an unplugged setting. Part of the London

International Jazz Festival; 7.30pm;

THEATRE Barbican Theatre Tel: 44-171-6388891 A Patriot for Me: by Osborne. Directed by Peter Gill and performed by the Royal Shakespeare Company. Osborne's play is a gripping depiction of a man determined to conceal his background and personality at any cost; 7.15pm (matinees Nov 17, 18, 20, 21, 22

MUNICH EXHIBITION

Haus der Kunst Tel: 49-89-211270 Sigmar Polke - Rembc new work on paper by the German artist; from Nov 17 to Jan 21 OPERA & OPERETTA Tel: 49-89-21851920

L'Italiana in Algeri: by Rossini. Conducted by Antonello Allemandi and performed by the Bayerische Staatsoper. Soloists include Ferruccio Furianetto and Caroline Maria Petrig: 7pm; Nov 18, 21, 26,

■ NEW YORK **OPERA & OPERETTA** Metropolitan Opera House Tel: 1-212-362-6000

 Il Barbiere di Siviglia: by Rossini. Conducted by Adam Fischer and performed by the Metropolitan Opera. Soloists include Jennifer Larmore and Ramón Vargas; 8pm; Nov 17, 20, 24, 27, 30

■ OSLO DANCE

Norske Opera Tel: 47-22-429475

Three Ballets: the Norwegian Nationsi Ballet with the choreographies *Four Temperaments* by Balanchine Women Song* by Sund and *La Rends* by Tetley. Conductor is Emmano Florio; 7.30pm; Nov 17, 18

PARIS

CONCERT Salie Pleyel Tel: 33-1 45 81 53 00 Orchestre National de France: with conductor Jeffrey Tate and pianist Leon Fleisher perform works by R. Schumann, Britten and Dvorák; 8pm; Nov 17 Théâtre du Châtelet Tel: 33-1 40 28 28 40

Emanuel Ax and Michel Dalberto: the planists perform works by Brahms and Schoenberg; 5pm; Nov

EXHIBITION Centre Georges Pompidou Tel: 33-1 44 78 12 33

 Dessins suméalistes: vision et technique: drawings by Surrealists from the museum collection. Including works by André Breton, Man Ray, Max Ernst and Joan Miró;

PITTSBURGH CONCERT

Heinz Hall for the Performing Arts Tel: 1-412-392-4900 Pittsburgh Symphony: with conductor Marek Janowski and flutist Robert Langevin perform Creston's "Threnody", ibert's "Flute Concerto" and R. Strauss' "En Heldenleben"; 8pm; Nov 17, 18, 19 (2.30pm)

VIENNA

CONCERT Konzerthaus Tel: 43-1-7121211 performs the first 24 preludes and fugues of Bach's "Das emperierte Klavier"; 7.30pm; Nov 17

Musikverein Tel: 43-1-5058681 Wiener Philharmoniker: with conductor Zubin Mehta and flutist Wolfgang Schulz perform Mozart's Symphony No.29" and "Flute Concerto, KV 313" and Ravel'a "Daphnis et Chioé" and "La Mer"; 7.30pm; Nov 17

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Midnight Financial Times Business Tonight

ratings. These are defined

cally - the results would be serious in economic terms. For

it would mean that over and

above the inflation and

exchange rate risks and other

elements listed above, a new

item - risk of default - would

have to be added to the factors

which enter into US long-term

interest rates. This would

have a depressing effect both

on the US and the world rate

of growth and further swing

the balance of macroeconomic

risks from inflation to defla-

But this is not the most seri-

ous risk. The US budget is the only one in the world where

changes can be large enough

to influence the international

real rate of interest. The fall in

US bond yields over the last

favour of a balanced federal

budget, achieved over seven

years perhaps, but sincerely

intended. If this expectation

becomes a victim of the politi-

cal crisis, the effect on Ameri-

can and on world real interest

rates could be more serious

than that of any temporary

delay in paying federal employees. It is for this reason

that - whatever one's per-

sonal political outlook - the

insistence by the Republicans

on a balanced budget commit-

ment from President Clinton

Economic Viewpoint · Samuel Brittan

Thinking the unthinkable

The US is not about to default on its debts. But the standoff between president and Congress over the budget is bound to trigger discussion of default risk premiums

So far US and world financial Group of Seven main indusmarkets have taken the contrial countries. These go from flicts between tha president less than 3 per cent on Japaand Congress over the US budnese government 10-year get remarkably calmly. The bonds to over 11% per cent on strong inference is that there Italian government bonds of is no real expectation of the similar maturity. The US has US government defaulting on enjoyed yields of under 6 per the interest payments due on its debt. This view will be Many different factors go strengthened by yesterday's into these differentials. The US Treasury announcement of foundation stone is the world special devices to enable the

administration to get through not directly measurable, as to the end of December. most countries do oot have The delay in paying some federal salaries and the clowell established markets in indexed government bonds. sure of federal offices are of But the yield of under 3% per lesser importance, except as part of the political game. The US is oot about to enter a Mexican-type debt cri-

A game of bluff over the debt ceiling has often occurred in the past. Usually, however, it has has been a Republican president at odds with a Democrat Congress which has been in favour of spending. A Republican Congress which wants e spending standstill is more novel.

The president is obviously trying to attribute the continued deadlock in negotiations with Congress to his desire to safeguard federal social spending, while Republicans are auxious to blame it on his failure to accept the target of a balanced federal budget by 2002. An eventual compromise will have to embody the balanced budget principle. Con-gressional leaders will do more harm than good to US financial standing if they backtrack on this principle for the sake of a quick settlement.

Meanwhile, there is a case for looking at the theory of default risks by first-world governments in the context of international bond yields without prejndging the US outcome. For we can no longer assume, in the famous words of a former head of Citibank that "countries don't go broke".

The starting point for such an analysis must be the large international spread of bond yields - even among the

many is not directly concerned by US inflation. He is concerned with the real value of his interest rate receipts and eventual capital repayment converted into D-Marks of constant value. This is affected by German inflation plus or minus the likely movement of the dollar. Thus the small interest-rate premium that German bond yields have over American ones does not real rate of interest. This is necessarily indicate that German inflation is expected to be higher than American. It is more likely to suggest that the dollar is still undervalued in

relation to fundamentals and ceot on longer-maturity UK indexed boods may provide is expected to bounce back some approximation.

One can give give a simple further over the next decade. The risk premium is the formula to explain nominal most tricky element to define. interest rate differentials, even though the variables remain It is oot the same as the infla-tion expectation, but the extra partly a matter of guesswork. reward the holder of non-What would a German invesindexed etock requires to tor contemplating buying a US insure against his central estigovernment bond expect to mate of inflation being wrong. The premium could be either receive? It would be:

the going international real

PLUS a premium to cover the expected inflation rate in

● PLUS another premium or

discount to cover the expected movement of the dollar

• PLUS e risk premium to guard against his central

expectation on either German

Uotil recently this formula

would have covered all the rel-

evant elements. Let us go

briefy through the traditional

items. The investor in Ger-

Ratings of the G7 countries

inflation or the movement of

the dollar being wrong.

rate of interest

positive or negative.

If we make a few educated guesses to fill in the formula. we might say that a German investor in US bonds would

• a real return of 3% per cent PLUS a German inflation premium of 2½ per cent • PLUS a risk premium of 1/4

ceot for expected average annual appreciation of the dol-Over a 10-year period one

AAA 7.1%

MINUS a discount of 1/2 per

rate to move in the opposite agencies have given most leaddirection to comparative inflaing western economies tripletion rates. But the relationship is far from exact. French by the Franco-British creditrating agency IBCA as "obligabond rates are around % pertions for which there is the lowest expectation of investcentage points higher than German ooes even though the ment risk". Among the G7 countries the only exceptions inflation rates of the two countries are almost identical. The are Canada and Italy. These cootinuing differential may latter ratings indicate, according to IBCA, merely a "very low" expectation of investrepresent a residual lack of credibility about the continuation of low inflation in France. ment risk which is a more recent achievement than in Ger-So far the US government'e triple-A ratings have remained IBCA has, however, many. But a doubt about Ecooomic and Monetary Union placed the US "on rating watch for a possible down-grade". Should it be lowered could also contribute to the differential. So could any possibility whatever of a modest Freoch devaluation before and the other credit rating agencies follow suit - and we Emn conversion parities are set in stone. Each of these ars talking very hypotheti-

differential. The UK has had a bond yield differential against Germany of nearly 1% percentage points or twice that of Franca. This suggests an all too obvious market verdict on the likely course of Britain'a exchange rate and inflation rate. It is consistent with other evidence that financial markets have little confidence in the government'e inflation target of 2½ per cent or less in the medium term, but have rather more confidence in the 4 per cent upper limit of the

fears may have a very small probability; but cumulatively

they contribute to the yield

Do default risks have to be added to the formula given year has presupposed a new grouping of political forces in above for explaining bond would expect the exchange yields differentials? Credit

Hollywood stars have returned to Japanese television advertisements, says Emiko Terazono

Tokyo takes a shine to Tinseltown

Dennis Hopper, tha veteran film actor, may be known in Hollywood for playing sinister roles, but in Japan he is recog-nised as the man having a tantrum over his yellow rubber duck in a television commercial for bath salts.

After a brief hall, big Hollywood names are back in Japanese television advertising. Along with Hopper, they include Sharon Stone, Madonna, Harrison Ford and a number of others whose latest performances might take some of the shine off their image if shown in the US or Europe. The trend appears to be inspired in part by the yen's appreciation - which reduces

the costs of hiring celebrities and by the desire of many companies to raise their profile. But it is not without critics in the advertising industry. The use of any star is likely to dull creativity aince an advert would rely solely on big box office names rather than a

good idea," says an official at ading Japanese agency. Television exposure for Hollywood stars in Japan is not new, Charles Bronson'a aftershave campaign in the early

1970s being one of the first. At that stage, Americans and Europeans were still rare on the streets of Tokyo, and his appearance won the product nediate recognition. "Foreigners gained attention

dne to the curiosity factor," says Mr Kim Walker, president of Strategic Planners International, a media and advertising consultancy. During the late 1980s, the height of the economic "bub-

ble", Japanese consumers regularly saw names such as Arnold Schwarzenegger, Mike Tyson, the US boxer, and funk legend James Brown promoting anything from drinks to instant noodles. Hollywood stars joined the

rush for money - while stipulating in their contracts that the advertisements' airtime After the 1990 Tokyo stock

most be limited to Japan.



Back on the box after taking a break: Harrison Ford

in earnings, corporations were forced to curb costs, including advertising expenditure. "The atmosphere was of frugality the exact opposite of what Hollywood stars convey," says Hidekazu Aizawa, senior manager at Dentsu, Japan's largest

advertising agency.
Advertising spending fell in
1992 and 1993, with the figure
for 1993 totalling Y5,127bn (\$51bn), down 10.5 per cent from its peak in 1991.

Talevision advartlaing, which accounted for a third of all advertising expenditures, totalled Y1.589bn that year. down 5.4 per cent from 1991. The decline in spending resulted in a more direct style of advertising, with straightforward presentations of products and explanations of why con-

flaunting flashy stars. However, consumers and corporate advertisers grew weary of unimaginative advertising and the stars from Tinseltown drifted back. .

sumers should bny them

rather than vague images, or

Expectations of an economic recovery have also helped recent advertising spending. In 1994, advertising spending rose 0.8 per cent from the previous year to Y5,168bn, its first rise in three years.

Moreover, the yen's appreciation and the rise in the cost of contracts are usually in US dollars, more economical. If a Japanese rock singer

and a famous Hollywood star costs more or less the same, many companies will choose the latter," says an advertising Hiring Japanese stars will

cost an advertiser between Y30m and Y100m. Harrison Ford, who assumes the role of a blue-suited salaryman in adverts for Kirin Beer, is estiaround \$1.5m (£940,000) to \$2m, whila the industry estimates the contract for Madonna, who appears in commercials for shochu, a Japanese liquor, to

be about \$2m.
On the debit side, problems can arise when the celebrity overshadows the product. The impact of using a foreign star, moreover, is lost on consumers when one celebrity appears in

For example, after seeing Charlie Sheen promoting Tokyo Gas, Philip Morris and Madras shoes, consumers are left confused about which

products he advertises. Meanwhile, the appearance of Sting, the UK rock celebrity who has campaigned against destruction of the rain forests, became controversial when he appeared in a promotion for a resort complex in soutbern Japan which locals allege is ruining the environment.

In spite of the criticisms by pundits, some commercials can be entertaining. Take, for example, a commercial for Itoham Foods, a leading processed meat manufacturer, featuring Sylvester Stallone. Some English speakers are left wondering whether the action star in a tight white tuxedo presenting friends with a box of ham does not suggest the product's other meaning a hammy performance. But Akira Tanaka of Itoham is unabashed. He admits the com-

pany was not aware of the English slang meaning but adds: "We did use Sean Con-

governed by a group of like-minded individuals of a

similar heritage, who wanted

depends on consensus among

to preserve their privileges.

The system they developed

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Tony Vernon. Calle de las Naciones 21, E-28006 Madrid,

Surely, it's your cup of tea. Whether you're an American every sense. The only private-sector

Turkish market, a Japanese manufacturer making a long-term iovestment io Turkey or a European trade com- by Euromoney in July 1995. Garanti will like the way we serve the tea. Just like our banking.

As the success of Garano in international markets signifies, we operate according to the highest standards in three consecutive years. A \$200 mil-

institutional investor interested in the bank in Turkey to disclose its financials to Standard and Poor's, Garanti was selected as Turkey's "Best Bank" pany doing business here, you surely ranks fourth in the world in terms of return on assets according to The Banker and is the only multibranch bank in Turkey to receive a long-term "A" rating by Capital Intelligence for

lion one-year syndicated loan facility signed in July 1995 further reinforced Garann's top-tier standing, carrying the best terms obtained by any Turkish bank since the finaocial crisis of

To make a long story short, if you want ro do busioess io Turkey, Garanti Bank is exactly your cup of

63 Büyükdere Caddesi, Maslak 80670 İstanbul / TÜRKEY Tel, Faxe (90-212) 285 40 40 Telem 27635 gatı-tr For further information please contact: Mr. Hüsnü Akhan, Executive Vice President

LETTERS TO THE EDITOR. Number One Southwark Bridge, Lond SE1 9HL

US constitution lacks balances to make it work

to fire the main letters editored com. Translation may be available for letters written in the main international languages.

From Mr Boris Allan.
Sir, Though Americans are fond of pointing to the checks and balances in their constitution, the current legislative fight between the president and the Republican Congress is illustrative of the checks written into the US constitution - without any balances. Any balances depend upon a certain acceptance, tolerance, and commonsense, sadly lacking with today's

When the US constitution

was written, the "people" enshrined in that document were not a diverse group, they were principally white male property-owning Christians who shared a common culture and a common language of discourse (slaves, Indians, and the poor were not part of the picture). At that time, everything was smaller, and members of the First Congress could not hide behind sound bites, were not protected by their staff (they had none or few), and their campaigns were

groups. The "founding fathers" probably never even considered a situation where individual candidates would spend more than \$20m to gain a Senate seat, or foresee a situation where legislators would be so unpatriotic, so pigheaded, so short-sighted, to put the US in default.

not financed by interest

The US constitution is more than 200 years old, and it is showing its age. The founding fathers defined a system of government for a small nation

Competition obstacle is issue for UK business

From Mr. Tim Melville-Ross. Sir, In his article on business, Europe and Labour ("Lost voice of business", November 10), Philip Stephens asserts that the only businesses to have spoken out on Europe are those "who have kept faith with Margaret Thatcher's Little England".

Business scepticism about a single currency and opposition to the high labour costs of the Social Chapter, as espoused by the Labour party, has little to do with being a "Little Englander", and everything to do with trying to maintain competitiveness in the face of considerable odds.

Of course businesses want the government to have a constructive and positive relationship with Britain's European partners, but this does not mean welcoming with open arms all that comes from Brussels, especially if it seems irrelevant or indeed harmful to business interests.

In any case, businesses have yet to feel the full benefits of the single market. A recent Institute of Directors survey showed that 35 per cent of directors continue to face serious administrative obstacles when doing business with Europe in the form of excessive red tape. VAT

restrictions, customs controls. trade restrictions and regulatory differences which put up barriers to free

Business wants Britain's political parties to say "No" to EC regulations or any other tures which hinder their ability to compete both within Europe and internationally, and which will damage Britain's economic interests in the long term.

Tim Melville Ross, director-general, Institute of Directors, London SW1Y 5ED, UK

Nuclear states have no agreement on restraint

From Prof. R.V. Hesketh. Sir, Permit me to pinpoint the "factual inaccuracy complained of by Mr John Major "Summit colleagues wrong on N-tests, says Major". November 11/12) in the paragraph adopted by all Commonwealth governments, other than the UK, in regard to French nuclear tests, In Section 4(a) of the second decision adopted by the parties to the treaty on the non-proliferation of nuclear weapons, at the 1995 review and extension conference held

in April and May, the nuclear-weapon states do not agree to "exercise utmost restraint"; they only agree that they should. The factual inaccuracy complained of is that the heads of Commonwealth governments assert that the nuclear-weapon states have agreed to "exercise utmost restraint". They haven't and the prime minister is correct, though some would say the point is a technicality.

The irony is that, subsequent to the review conference, the French government has

voluntarily bound itself to "exercise utmost restraint". This freely accepted obligation is stated in a letter of September 28 1995 written on behalf of the French government by its London ambassador to Mr Llew Smith MP and others. So the French government has accepted an obligation which other nuclear-weapon states have not - but has not honoured it.

R.V. Hesketh Lower Stone, Berkeley, Gloucs, UK

FT close to acknowledging a great art form

From Mr David Mordecai. Sir, I was delighted to see jazz getting some coverage on the arts page ("Openings", November 6) - especially for Ornette Coleman the altoist (and only occasional tenorist).

If in your obit for Kingsley Amis (October 23) you had instead made mention of his love of jazz and "other" serious music the FT would be sending the right signal about one of the great art forms of the

20th century. More jazz please!

David Mordecai, 33A Wealthy Heights, 35 MacDonneli Road. Mid Levels, Hong Kong

Relatively familiar

From Mr Tony Vernon. Sir, I am moved to comment on Lucy Kellaway's article "Five steps to being a chief exec" (November 13) referring to the new-found familiarity of telephone operators with Having for some time been a

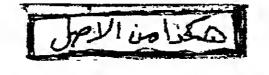
user of the Talking Pages freephone information service, I notice that the same "Hello, Tracy speaking . . " culture has been introduced to this service. That this approach enhances the user-friendliness of such organisations' interface with the customer could pass without further argument. What a pity therefore, that

the relationship is only skin deep. During a recent call to Talking Pages I recognised the operator's west-country accent and, having lived there for a time, I inquired exactly where she was from.

No sooner had she started to say Frome than she checked herself and insisted that such information could not be given

While I appreciate that in this age of increasing telephone nuisance there is a need for high levels of security. I would have thought that introducing pleasantries into such conversations could be a bilateral as well as unilateral activity.

Otherwise, congratulations to BT on an excellent service.



FINANCIAL TIMES

Number One Southwark Bridge, London SEI 9HL Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700 Thursday November 16 1995

Apec's tasks in world trade

In Bogor, Indonesia, last year, the member countries of the Asia Pacific Economic Co-operation forum agreed to a skeletal plan to iberalise their trade. The intention was to liberalise the trade of the more developed countries by 2010 and of developing countries by 2020. Now, in Osaka, they have to put the flesh on the bones. It will prove no easy task.

Apec is extraordinarily diverse: in wealth, its 18 members range from Japan to Papua New Guinea; in population, they vary from China to Singapore; in location, they span half the globe; and in resources, they vary from land-rich Australia to people-rich Japan. What then do they share? Only that they are not Europeans and that they all consider trade important. Collectively, they also matter: members generate 60 per cent of world output and almost half of world trade.

Apec's main aim has been to liberalise trade. But the difficulties that have emerged suggest the obstacles may not be much smaller than at the global level. It s bardly surprising, for example, that Japan and South Korea have found it as hard to abandon protection of agriculture in favour of their Apec partners as they did in

the Uruguay round What then can - and should be expected from this meeting? One valuable contribution would be resistance to US bilateral pressures on trade. Another is the informal dialogue with China, Ideally preparing the way for comple- Apec needs to admit this pow.

tion of its long drawn-out negotia-tions over accession to the World Trade Organisation. Yet the most important task is

to work out how Apec can best serve as a catalyst for global liberalisation. For this, some ambiguities must first be cleared up.

Japan's idea is that Apec should not begin a formal negotiation, but work through peer pressure. Countries should agree a timetable for presenting their own trade liberalisation plans, for scru-tiny and discussion. A decision must also be reached on whether Apec liberalisation should be nondiscriminatory or whether it should become a bloc that could negotiate reciprocally with the rest of the world.

Creation of a formal negotiating forum within Apec, let alone a discriminatory, free trade agreement. would have damaging effects on outsiders. It seems unreasonable for Malaysia, say, to discriminate in favour of Chile, against Bangla desh. Given Apec's size, formal nagotiations within it would also, inevitably, tend to be a substitute for negotiations within the

True, a plan for discriminatory liberalisation might force the Europeans into global negotiations. But it is just as likely to split the world down the middle. Apec should try to secure trade liberalisation, but also remember that discriminatory liberalisation may well not be better than none. Discrimination imposes costs

Deck clearing

direction in the parliamentary programme unveiled in the Queen's Speech will be sorely disappointed As it enters its last full parliamentary session before the next general election. Mr John Major's administration unsurprisingly has put tactical political advantage before serious legislative purpose.

His government faces an unprecedented Labour lead in the opinion polls. Many Tory MPs believe that it will soon be impossible to claw back sufficient sup-port to win an election which must be held before the summer of 1997. Mr Major's precariously small majority meanwhile forces the prime minister to minimise the risk of rebellion from the right

wing of his own narty. So the principal purpose of the package of measures announced yesterday is to emphasise the points of difference between Conservatives and Labour in the approach to the election.

It is true that some of the bills on the establishment of a high-speed Channel rail link and on cross-media ownership - represent the day-to-day business of government in a changing world. The reinstatement of changes to divorce and family law meanwhile mark a welcome rebuttal of recent opposition from some on the moral right of Mr Major's party. But the politically high-profile legislation on asylum seekers, on nursery school vonchers and on grant-maintained schools is

points of difference with Mr Tony Blair's Labour party.

In one respect, there is no need to lament the absence of a more substantive programme. Too often in the past 16 years the Conserva tives have confused a frenetic pace of activity in parliament with good government. Too many laws have meant too many bad laws. The latest batch of measures

will also be largely irrelevant to the eventual outcome of the general election. The forthcoming Budget, the performance of the economy over the next year, the conclusions of the Scott report into arms sales to Iraq, and the capacity of the Conservative party to maintain a semblance of unity over European policy will be the

The Queen's Speech, however highlights a more fundamental flaw in the legislative process. The peculiarly British custom by which all substantive new bills must be announced and drafted in time for the state opening of parliament intensifies the pressures in Whitehall which lead to hasty

and ill-prepared bills. It loads on to the first few months of the session parliament's scrutiny of the legislation increasing the risks that badly drafted measures will make their way into law. If legislation was agreed and introduced more evenly throughout the year, the government would lose one of its political totems but it would

Brussels keeps shut the gates to the east

Enlarging the EU has taken a back seat as members grapple with problems closer to home, says Lionel Barber

mission for the millennium, it is enlargement to the east-Integrating the former communist coontries of central and eastern Europe with the capi-talist west is the stuff of which history and heroes are made.

Yet the EU's enlargement project is faltering. Critics point to a lack of political will and imagination, while Brossels officials confess that the scale of the challenge is far greater than first thought when the original promise of membership was made

The level of seriousness about enlargement is not minimai it simply does not exist," says a senior Commission official. "If this kind of approach persists, expansion to the east will have to be postponed for at least a decade,"

Five eastern and central European countries have so far applied for EU membership: Hungary, Poland, Romania, Slovakia and Latvia. Five more are likely to do so: the Czech Republic, Slovenia, Bulgaria, Estonia and Lithuania. Malta and Cyprus have won a pledge to open accession negotiations six months after the conclusion of next year's intergovernmental conference, most likely in mid-1997.

EU leaders have yet to establish a timetable or a pecking order for the admission of these new members. They have barely begun to consider the implications for the Common Agricultural Policy or regional aid which account for two thirds of the EU's annual budget of Ecu80bn

Previous rounds of enlargement have created a union that stretches from the Mediterranean shores to the outer Arctic circle. But the admission of the central and eastem European ca questions about the diversity that the union can accommodate.

First, the only land border the EU now shares with Russia is that of Finland. Admitting the eastern European states would expose the Union's eastern flank to former Soviet republics such as Belarus, Ukraine and Moldova. Inevitably, security questions arise, especially if the new entrants were to join the Western European Union, the EU's fledgling defence arm.

Second, eastern enlargement poses questions of economic adjustment dwarfing those linked to the earlier accession of Spain and Portugal (1986) or Greece (1981). Although there was a streable can between the standards of living of those southern entrants and those of the existing member states, the gap is much larger for central and

eastern Europe.

Bulgaria and Romania, for example, enjoyed a per-capita GDP of just over \$1,000 in 1993 based on purchasing-power parity, according to the World Bank. The Czech Republic stood at \$2,710, Hungary at \$3,350 and Slovenia at \$6,490.

The scale of the gap raises doubts about whether these economies could cope with the competitive pressures and high standards imposed by the EU's internal mar-

f the European Union has a ket. The European Commission rubbed home the point this year with a list, running into several hundred pages, which set out administrative and legal procedures by which EU legislation must be adopted and implemented by applicant countries. According to a Czech diplomat, the Brussels white paper highlighted the hurdles still in front of full EU membership, But it also suggested that enlargement was slipping down the order of pri-orities in Brussels at a time when the EU is grappling with its own institutional future.

Fresh thinking might have been expected from the high-level group charged with preparing next year's EU intergovernmental conference. But the Reflection Group working on the agenda has laboured under a restricted mandate, and its soonto-be published report is unlikely to contain a blueprint for a union of 25-plus member states.

The impression that enlargement is receding as a priority has grown since the informal EU summit in Spain in September. Ostensibly, EU leaders were supposed to engage in free-wheeling dehate about the shape of the union in the 21st century, but one participant describes the session as "badly prepared" and very unimpressive"

The summit agreed a plan for tackling enlargement, starting with institutional reforms at next year's intergovernmental conference. Decisions on moving to monetary union will take place in 1998. A new budget package by 2000 would then put orward a new a new deal between net contributors and beneficiaries. taking account of the needs of the applicants from the east. "Only at this point," says a French diplomat. "we can begin serious enlargement

Yet if the time taken for the accession negotiations with Spain and Portugal is a guide, there would be a delay of several years. The final agreement would then require ratification by all 15 member states. It could be 2005 at the earliest before Poland, the Czech Republic, Hungary and Slovenia could join. When pressed about the delays, EU diplomats and Commission officials point to the Maastricht treaty's commitment to hold an intergovernmental conference next year.

The unknown question is how far the conference will overcome opposition, notably from Britain, to improvements to the functioning of the union through measures such as extending qualified majority voting. Without such reforms, most believe that managing a 25-member union would be impossible. Uncertainty over the planned

monetary union could also damage prospects for enlargement. A delay in Emu would trigger a crisis of confidence so severe that it would be virtually impossible to imagine the EU responding with accession talks with the eastern Europeans, says a French diplomat. Similarly, Mr Jacques Chirac, the French president, is unlikely to

respond to calls from Mr Helmut

projects to fund.

political union unless he can bet on monetary union. Few member states are likely to ratify next year's intergovernmental conference until they are sure that Emn remains open to all, rather than being an built around France and Germany.

Here the Commission has a crucial role as arbiter and ideas catalyst. It will unveil two papers on the reform of the Common Agricultural Policy and structural funds ahead of next month's EU summit in Madrid, the two policies most affected

n regional aid, tha Commission has calculated that it would cost an extra Ecu38bn a year if the present policies were extended to all 10 applicants. Officials argue that the eastern economies could not absorb the amounts they would be paid, which would range from 7 per cent of gross national product in Slovenia to 34 per cent of GNP in Bulgaria and Romania. Already, the Phare aid programme, which com-mitted Ecu4.2bn between 1990 and last year for boosting market economies in central Europe, has experi-enced difficulties in finding suitable

One proposal is to set a ceiling on the amount of structural funds existing countries and future member states can receive. The unofficial figure circulating in Brussels is between 3 per cent and 4 per cent of national gross domestic product.

However, such a ceiling would run into opposition from countries such as Greece which would face real cuts in aid after becoming accustomed to a drip-feed from Brussels.

Extending the Common Agriculturai Policy eastwards cou even more expensive, since the subsidies would encourage expansion in output in farm-intensive economies. The application of the policy in these countries would trigger a rise in food prices and create a new class of super-rich farmers.

Mr Franz Fischler, agriculture commissioner, appears, therefore, to be moving toward recommending lengthy transition periods lasting between seven and 10 years for the eastern applicants. These would most likely be coupled with the imposition of strict production quotas and, by implication, the continuation of border controls. At a conference of European lead

ers in Berlin, organised by the Herbert Quandt Foundation and the Financial Times, Mr Ruud Lubbers, former Dutch prime minister, suggested that it might be neces sary to find new forms of transitional membership. This might help the central and eastern Europeans to meet EU standards in sensitive areas such as immigration.

Yet this would challenge the tra-

ditional EU approach of insisting that new members adopt the acquis communautaire, the written (and unwritten) set of rights and obligations developed since the Treaty of Roma in 1957. Weakening the acquis might also encourage other member states to follow the UK approach of selective co-operation or "variable geometry", weakening the solidar-ity and cobesion of the union.

Speaking at the sama conference. Professor Jeffrey Sachs of Harvard Institute for International Develor ment, an economics adviser to Poland, Estonia and Slovenia, called for bold new thinking to avoid enlargement becoming bogged down in the EU's internal wran-

He produced a six-point plan including measures to help the candidates eliminate last year's Ecu6.4bn trade deficit with the union. This would involve the EU switching from safeguards against cheap imports and anti-dumping measures to a common competition policy for the whole region.

In return, the east Europeans would renounce subsidies to state enterprises and their claims to large-scale regional aid under the EU's structural fund programme. The central Europeans need markets, not charity," said Prof Sachs. Enlargement may be seen as inevrtable - even desirable - by the EU. But none of its leaders yet seems ready to admit that it will require sacrifices and changes in the tradi-

tional EU approach.

One member of the Reflection
Group says it is time to break free of old thinking. "The worst thing about the situation is that people say it's too big and too difficult. All that is true but we have to do it. If wa don't do it, the consequences will be even worse."

Curious UK pay

Yesterday brought another batch of employment and earnings data indicating that the UK lahour market is not what it once was. Were this the fourth year of a normal recovery, observers would be talking of inflationary wage spirals, and the danger of paying every worker the same "going wage". But instead they are mar-velling at the moderation - and variety - of 1990s wage patterns: and wondering how long either feature can be expected to last. The latest figures show that UK employees, on average, accepted a real cut in living standards over the lost year, despite the fact that unemployment fell hy nearly 250,000. To the government, this is evidence of the success of curbing the unions and deregulating the

labour market but there is only mixed evidence for this. Government policy has certainly played a part in keeping a lid on the service sector, where wage growth is the model of restraint. sveraging only 2's per cent over the year compared to 4's per cent in manufacturing Part of the unusually large gap can be put down to the government's public sector wage hill freeze. Earnings in public sector-dominated sectors such as education, health and social work grew by a mere 1.4 per cent over the year, compared to nearly 4 per cent in the financial

services sector. Yet longer-term changes - some of them related to 1980s deregu-

sector wage trends, in particular the growth in the number of part-time and female employees. Both categories tend to earn less than their full-time, or male equiv-

In the manufacturing sector however, it is less obvious that government policy has wasned wage bargainers from their ten dency to favour real wage growth over increased employment. Nor -as car workers wait to judge the outcome of the present pay round at Ford motor company - has the notion of a "going wage" lost its relevance.

In services, real wages have risen 1.4 per cent since the third quarter of 1992, while employment has risen by nearly 500,000, or 3.1 per cent. But in the manufactur-ing sector, real wages grew hy around 4% per cent, alongside a modest 58,000, or less than 1% per cent, rise in employment.

With productivity growth in manufacturing having dropped sharply since the end of 1994. employers have thus faced a significant rise in unit labour costs over the past 12 months. While this does not - yet - imply a rapid increase in inflation, it will make it more difficult to combine stable economic growth with higher manufacturing employment in the years to come. In short, if Ford workers set the trend, and achieve anything close to the 10 per cent wage rise they are demanding, UK of them related to 1930s deregu-nation - have also affected service on its long-term downward trend.

OBSERVER.

Heads I win

Princess Diana may be making a terrible mistake in spilling the beans on yet more aspects of her once private life. The British public will discover next Monday evening A European audience will have to wait a bit longer before deciding whether Theo Waigel is wise to rush into print - on a no less

delicate matter. Hardly has the German finance minister drawn breath from his cracking little idea about fining countries that breach Maastrich deficit criteria than it emerges that he is beavering away on a tome about the beauties of a single currency. Like the new coinage,

Obviously Walgel's high-wire act
of belonging to a government
committed to a single currency whilst leading a party (the Bavarian CSU) which is highly sceptical of abandoning the trusty

D-Mark – is insufficient of a challenge. So why not complicate things a bit further by consigning his thoughts to print?

Cup in hand ■ No crass Bestriolais Nouveau style marketing campaigns needed to encourage the Russians to drink more volks. The

half a bottle of the stoff every day, which adds up to a stiff 14.5 litres of pure alcohol a year. Needless to say, what pleases to drinks manufacturers leaves the

sociologists cold. Alexander Nemtsoy, chief scientific adviser to the Centre for Alcohol Policy, frets that the country's collective binge is setting families at each others' throats, filling the streets with drunks, and generally cutting off the country's men in thist prime. It's too readily available and it's too cheap, he reckons.
Russia's lawmakers seem to agree. Yesterday both houses of

parliament voted to override President Boris Yeltsin's veto of a law aiming at tighter state controls on the sale of alcohol. But the sober suited in gade will

not necessarily get very far. The last anti-boose campaign was that waged by Mikhail Gorbachev. All the thanks he got was a steep fall in his popularity ratings combined with a gaping hole in the budget.

Orwellian

■ The concept of a communist seems to be a distinctly flexible one in the lexicon of Chancellor. Helmut Kohl, Mantion the PDS, the successor to the east German communist party, and the German premier will spit with rage, Never mind that 35 per cent of people aged between 18 and 24 voted for the PDS in last month's elections Russians to drink more vouss, the transfer in Berlin - Kohl gives the Labour's Cify spokesman, nas average Russian male now drinks.

bunch of Stalinist murderers Faced with real communists. Kohl changes his spots entirely. As the first western head of government to make an official visit to the Chinese army since 1969. Kohi has this week been drawing attention to the troops importance in China's development - semelow neglecting to mention their importance six years ago in Tianammen Square ...

Tick tock

When Nick Durlacher took over as chairman of the Securities & Eutures Anthonity at Monday's board meeting, he was apparently mildly taken aback to be presente with a large gift wrapped parcel from Mappin & Webb. Surely it must be destined for Christopher Sharples, the outgoing chairman of the self-regulatory organisation? Opening it gingerly, Durlacher discovered what he was later heard to describe as a "distinctly naif" clock. Sharples sprang to his rescue and guided him to the inscription on the underside marked Regulator. Durlacher promptly jarned the object round and found the word Westminster

(as in, presumably, the melody of the time piece's chimes). The new chairman is unlikely to used hourly reminders of the relevance of Westminster opinion on his activities. Alistair Darling,

made plain his distaste for the principle of self-regulation, so Durlacher may not have to suffer his clock for all that long.

Net pets

■ Psst! Wanna call up Naomi Campbell on your computer screen - clad in some strategically-aligned sandy tyre tread marks? Perhaps mindful that its sought-after calendar is no longer acceptable on every office wall these days, Pirelli, the Milan tyre people, thoughtfully posted the lissome ladies on the Internet as

from yesterday. The web site has, of course, a lot more than calendar pages to interest the cyber-surfer. There's all sorts of information about tyres and related services, not to mention a litary of the company's sporting successes. It is purely in pursuit of the latter information, of course, that FT readers will be logging on at http://

Painful one

■ Who knows whether the Merrill Lynch/Smith New Court tryst is generating lots of extra business? But it is highly productive of reinvented acronyms attempting to convey the workers' state of mind. Sacked Near Christmas has recently been supplemented by Post Mercill Tension

Financial Times

100 years ago Attempt to sting twice

has been prominent in the

A South African financier who

assistance he has given to the markets during the recent crisis was approached by a dealer, who announced with regret that he was unable to meet his obligations in full. He explained that his other creditors had agreed to accept ten shillings in capitalist to fall in with this arrangement as regards the amount due to him. The financier, being anxious to do everything that was fair in the critical circumstances, agreed to accept the terms decided on by the general creditors, and was effusively thanked by the debtor for his generous treatment. The affair seemed then to have been duly arranged, but what was the surprise of the capitalist when he heard the defaulting dealer address him as follows: "The next thing I want to ask is this can you lend me enough money to pay the ten shillings in the pound?" We mercifully draw a reil over the Cape rhetoric in which the reply was framed. West Australian gold exports The gold experted from the colony amounted during October to 27,725 ounces valued at

£105,357. Of this quantity 13,812

ozs were obtained from the

Coolgardie Fishds.

Tokyo plan gives Asian countries flexibility

Apec nears deal to end trade barriers by 2020

By William Dawkins in Tokyo and Guy de Jonquieres in Osaka

yesterday nearing agreement on a compromise plan to eliminate all barriers to trade by 2020. Mr Ryutaro Hashimoto. Japan's minister of international

trade and industry, said he was optimistic that the 18 govern-ments of the Asia Pacific Economic Co-operation forum, covering half the world economy, were close to e deal drafted by Tokyo,

the current Apec chairman.

The draft plan will be discussed when Apec trade and foreign ministers begin a two-day meeting this morning to sketch out a plan of how to achieve the free trade goal, scheduled to be approved at the government leaders' annual summit on Sunday.

The compromise would allow flexible treatment for countries in opening markets in sensitive sectors, such as Asian farming. Japan wishes to accommodate its rice farmers, as well as farmers in China, South Korea and Taiwan, who are unwilling to submit to a guarantee to open markets by the Apec deadline.

By Robert Chote.

interest rates.

Philip Gawith and Robert Peston in London

The pound fell to a record low on

the foreign exchanges yesterday

as figures showing a rise in UK

unemployment and the biggest fall in living standards for nearly

14 years underlined the pressure

on Mr Kenneth Clarke, chancel-

lor of the exchequer, to deliver a "giveaway" Budget and a cut in

The news on the economy came as Mr John Major, prime

minister, attempted to wrest the

political agenda from the opposi-

tive programme focusing on

improving the competitiveness of

the economy, being tough on

crime, and introducing greater

But the programme for the cur-

rent session of parliament,

unveiled in the Queen's Speech

yesterday, was partly overshad-

Mr Yohei Kono, Japan's foreign minister, vowed that his country would produce a "meaningful" free trade plan, with "realistic and flexible treatment" for sensi-tive industries. Indonesia, Taiwan, New Zealand and Singapore snpported the Japanese compromise in meetings with the Apec chairman yesterday afternoon, said a Japanese official.

Opponents of the Japanese draft have argued that enshrin-ing special consideration for sensitive sectors would risk unrav-

elling Apec, since all member economies have politically sensitive sectors.

not to push the pace of Apec too fast, appeared to welcome the Japanese proposal. Mr Mickey Kantor, US trade representative, said that "we believe that it is important that a realistic and flexible approach be available" for members with difficulties.

As bilateral meetings continued, South Korea, smarting from a recent row over Japan's former

government by Sir Julian Critch-

ley, a veteran Tory backbencher, and a paint-bomb attack on Mr

Brian Mawhinney, the Conserva-

There was also feverish specu-

lation among MPs that several disenchanted Tory backbenchers

were to leave the party. Conser-

vative party managers said they

had no evidence that any MP

wanted to launch such a coup,

which would threaten Mr Major's

ability to govern, as it has a

Average earnings rose by an

underlying 34 per cent in the

year to September, according to

rise in income simply to compen-

sate for higher prices and taxes.

The resulting drop in "real" aver-

age earnings was the largest

after this month's budget were

Expectations of a base rate cut

tet? lo Over that period, the average bousehold needed a 4.3 per cent

tive party chairman.

majority of just six.

since March 1982.

Sterling drops as economy

occupation, and China were still to be convinced that their farmers would get sufficient protection. But they were thought

unlikely to block the deal.

As the agriculture problem neared a conclusion, senior officials shifted to two other crucial

issues on the agenda.

Japan is proposing that Apec members should automatically extend to one another, on a most favoured nation basis, any free trade gestures they may choose to make, such as tariff reductions. It also says individual countries should liberalise at their own pace, without formally seeking comparable gains from other Apec members

Mr Kantor reminded Mr Hashimoto, in what both sides said was a positive meeting, that the US was unable to grant MFN status in all cases because of its domestic legal requirement to review China's MFN privileges annually.

Tha US is also pressing for rules to ensure that Apec members offer each other roughly equivalent trade gains. This conflicts with most Asian countries aversion to using Apec for formal

drop in the volume of goods sold

in the shops last month and the

first rise in the number of people

without work and claiming bene-

The prospect of lower rates

took its toll on the pound, which

dropped to a record low of 82.5 per cent of its 1990 value against a trade-weighted basket of other

Against the D-Mark, it finished

in London at DM2.1847, a loss of

three pfennigs on the day, and only slightly above the all-time low of DM2.1755 reached on May

9. The Bank of England would

not comment on market rumours

The expectation of lower rates

was also reflected in the short

sterling futures market, but

gains there were later unwound

as sterling weakness seemed to

Growth 'hampered for 25 years',

limit the scope for a rate cut.

the pound at about DM2.19.

fits for 26 months.

currencies.

puts pressure on UK Budget of funds by the Nigerian National Petroleum Corporation, which

early next year by a consortium led by Kellogg, the US construc-

Nigerian gas deal to go-ahead, says Shell

By David Lascelles in London, Paul Adams in Lagos and Caroline Southey in Strasbourg

The plan by a consortium led by Shell to build a liquefied natural gas plant in Nigeria will go ahead, tha companies said after a

meeting in Lagos yesterday.

However the companies have yet to finalise financing for the \$3.6hn project, the source of con-troversy since last week's execution of Ken Saro-Wiwa and eight other minority rights activists.

The consortium said the construction contract was on course for signing before the end of tha year. In London, Shell said the board had "ironed ont all the major impediments" standing in the way of the project.

But there were still a number of "procedural steps" to be taken. These involved completion of the financial agreements, including the loans which the shareholders are to make to enable the project

Mr Dick van den Broek, a

director of Shell International, stressed last night that cancellation of the plant would damage the interest of the Nigerian people. "If the project is delayed, there is every possibility that the scheme would collapse," be said. In Lagos, there was no indica-tion whether a delay in the final investment decision was due to pressure on shareholders or lack

has a 49 per cent stake. A final investment decision must be made by the end of the year so that construction of the plant and facilities can be started

tion company. In Strasbourg, Mr Ken Wiwa, Mr Saro-Wiwa's son, and Professor Bolaji Akinyemi, a former Nigerian foreign minister and leading democracy campaigner, called for a campaign to isolate

the military regime.

Prof Akinyemi pressed members of the European Parliament for an oil and arms embargo, the expulsion of Nigeria from all cultural bodies and a freeze on foreign bank accounts. He also called for a travel ban on mem bers of the military regime and economic sanctions if the government failed to introduce democratic reforms in six months.

World can wait for Abacha's

THE LEX COLUMN Olivetti plugs in

Olivetti has pulled a white rabbit out of its hat on the eve of its 12,257hm (\$1.42bn) rescue rights issue. But if the company hoped its ambitious alliance with France Télécom would make investors less reluctant to stump up cash, it will have been disappointed. Shareholders worry that the venture will absorb increasing sums of capital. Only L200bn may be needed in the first two years; but if Olivetti is serious about taking on Telecom Italia across tha whole range of fixed tele-coms services once the market is liberalised in 1998, the cash drain could be substantial

This is not to deny the venture has attractions. Most important, Telecom Italia represents a soft target. Not only does it suffer from high costs; it is vulnerable to "cherry-picking" because its international tariffs are inflated and its best customers are highly concentrated in and around Milan. Moreover, picking France Tele-com as a partner plugs Olivetti into an international alliance including Deutsche Telekom. This should give the venture an edge in handling traffic to France and Germany, which together account for nearly 30 per cent of

Italy's outgoing international calls.

That said, Olivetti's alliance will not have the market to itself. BT already has a link-up with Banca Nazionale del Lavoro and it can only be a matter of time before AT&T addresses the market. Success will depend on effi-ciency and innovation - qualities Olivetti's core computer business has not been noted for of late.

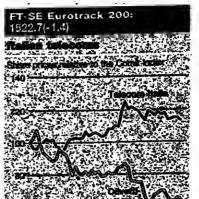
Euro Disney

Like the wicked queen's poisoned apple, yesterday's figures from Euro Disney looked pretty on the outside. Once investors bit into the detail, how-

ever, the ahares lost 14 per cent.

Trading is undoubtedly improving.

The decision in April to slash the theme park's entrance fee has paid off with a 21 per cent rise in visitors and higher botel occupancy. But the comparison is enhanced by the poor performance last year, when attendance dropped 10 per cent. Costs remain stubbornly high and spend per head is flat at best. Revenue growth slowed from 17 per cent in the third quarter to 10 per cent in the fourth, despite a warm summer and a full three months of the new Space Mountain ride. Stripping out an exceptional gain from buy-ing back its bonds as well as lower depreciation and lease charges, the group still lost money last year.



Euro Disney's future continues to be overshadowed by last year's financial restructuring

Additional interest payments start this year, royalties and debt repay-ments after 1998. Revenues will have to grow by 5 per cent a year just to cover those exira charges. Nor can the group currently contemplate investments like another big ride or even an adjacent park, which could provide the basis for acceptable profits. At this stage a decent return on the FFr23bn (\$4.7bn) original investment looks a long way away.

Euro Disney shares may provide the same thrills and spills as a ride on the group's Space Mountain rollercoaster, but they are more dangerous.

British Gas

Yesterday's £83m (\$129m) provision is only the tip of the iceberg of British Gas's problems. Selling gas below cost price is already wiping more than £100m a year off profits. On top of that, the company will have to pay £520m this year for gas it cannot sell, and it will not be able to start offload ing surplus for several years. Even then, BG will be lucky if it can sell at the 16 per cent discount the provision assumes. That is well below the gap between BG's average purchase price and the market price for gas contracts.

The company is praying for cold winters: higher demand would mop up some of the surplus. But this would do little to address the long-term problem. To compete in the domestic market once its monopoly is abolished even if the weather gets worse and the surplus disappears - the company will probably still have to sell gas for substantially less than it has to pay pro-ducers. The regulator might allow BG to continue charging high prices, but the company would then quickly lose market share, causing the surplus to

BG's call for the government to ball it out by pressing producers to cut their prices looks like a dead end. Producers could hardly justify to their shareholders a voluntary ect of generosity, unless the government threat ened something worse. Even then, the producers would rightly squeal about being penalised for a problem they did nothing to create. The government is much more likely to avoid a row with the producers and let BG shareholders

UK accounting

Weary finance directors who had hoped the UK Accounting Standards Board's zeal for reform was dying down will be unnerved to find it is mounting. Hidden in today's rather innocnous-sounding Statement of Principles is a radical agenda for the next few years.

The hoard's aim is to make accounts relevant and reliable enough for users to base economic decisions on them. I wants the profit and loss account to be a true trading statement; the present practice of allowing items such as start-up losses to be capitalised on the balance sheet would be outlawed. It favours current costs over historical costs as a way of measuring assets. The board even believes that changes in long-term liabilities, such as pension costs or derivatives, should be reflected in annual figures. The only concession is that companies will be allowed to show these in the statement of gains and losses rather than

This "tell-it-as-it-is" approach is a direct challenge to the traditional practice of smoothing figures to avoid one-off distortions, As such, it will run into heavy opposition from companies and auditors who argue there is quite enough volatility in accounts already. Such criticism has some merit. In an ideal world, investors would analyse the additional information and use it to make better decisions. In practice, they may just ignore a complicated set of numbers and rely on guidance from management. The board must be careful that it does not sacrifice pragmatism for principles.

> Additional Lex comment on Tarmac, Page 2

owed by a savage attack on the encouraged by an unexpected Hafslund investors call halt to merger with Ivax of US

Continued from Page 1

choice in education.

believed there was a simple majority in favour. The companies said they would replace the full merger with e strategic alliance in which they would enter into a number of licensing and collaboration agreements, benefiting from

Europe today

each other's strengths in the US for-one stock swap and Europe.

lvax concentrates on generic drugs, while Hafslund's most profitable products are contrast

Both sides said there would be no penalties or fees incurred in the broken deal, based on a one-

The news of the deal's collapse sent lvax's shares up \$% to \$24%. This still represented a fall of 21 per cent since the deal was first announced. Hafslund shares were suspended at NKr176 in

Oslo before the announcement the level they were trading at just before the link-up plan

emerged. Mr Phillip Frost, Ivax chief executive, said he regretted the loss of the tremendous poten tial offered by the merger. Hafslund said it would go

ahead with the spin-off of its energy division.

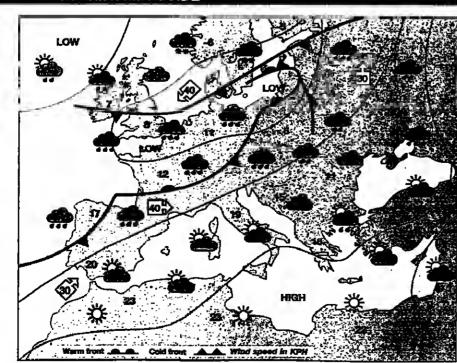
Analysts said this would leave the company looking attractive for a merger or takeover.

FT WEATHER GUIDE

over southern Scandinavia will direct strong northerly winds with cold and unstable air into northern Europe and the British Isles. Snow and hail showers will form over the Baltic see and move inland. There will be heavy rain over southern England, the Low Countries, Denmark and southern Swed An active low pressure system in the Gulf of Biscay will also bring heavy rain and windy conditions to Portugal and northern Spain. South-east Europe will be settled. Greece and the Balkan states will be sunny. The southern half of italy will have summer-fike conditions with maximum temperatures around 20C.

Five-day forecast

During the next couple of days, cold air from the north will move further into Europe. The British Isles and the Low Countries will have rain and light hall showers with temperatures mainly above freezing. Northern Europe will turn wintry. Heavy snow showers will continue over the Baltic Sea and move inland. Portugal and northern Spain will continue wet and windy.



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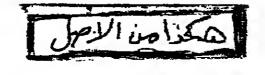
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Morgan Guaranty Trust Company of New York acted as financial advisor to Nutricia.

JPMorgan

September 1995

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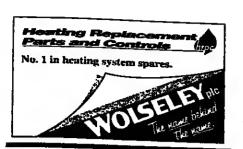
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FINANCIAL TIMES

COMPANIES & MARKETS

THE FINANCIAL TIMES LIMITED 1995

Thursday November 16 1995

Kleinwort Benson

We're focused.

A member of the Dreadner Bank Group

IN BRIEF

Ericsson beats nine-month target

Shares in Ericsson rose 6 per cent yesterday after the Swedish telecommunications group presented unexpectedly strong nine-month profits. The group said it was huilding on its leading position in the fast-growing mobile phone market.

Sales slump at Alcatel German unit Alcatel SEL, the troubled German subsidiary of Alcatel Alsthom, the French transport, telecoms and engineering group, has seen sales fall by almost 30 per cent in the first nine months of the year to DM2.29bn (\$1.62bn). Page 20

Hypo-Bank expands asset ma Hypo-Bank is to expand its asset management busiss by co-operating with a big US fund manager. hut has no plans to take a financial stake or seek investment banking acquisitions. Page 21

Matsushita slides Into first-half deficit Matsushita, Japan's largest consumer electronics maker, suffered a group net loss of Y132.9bn (\$1.3bn) in the first half. Page 22

VW sees contribution from S America Volkswagen, the German automotive group, expects its South American operations to contribute substantially to its return to profitability this year. The forecast comes despite difficulties in Brazil, VW's second higgest market after Germany. Page 24

Canadian rail offer to be priced today Canada's higgest privatisation, a public share offering hy Canadian National Railway, is due to be priced today. Page 24

UK insurer prospers from US upheavals Commercial Union, the largest UK-based insurer, said upheaval among US insurers was providing expansion opportunities in the country as the group reported a 13 per cent rise in nine-month pre-tax profits to £369m (\$583m) against a restated £327m.

Construction groups realign in UK Two of the UK construction industry's largest groups, George Wimpey and Tarmac, plan to swap their househuilding, huilding materials and construction divisions. It will be the higgest realignment in the UK sector. Page 25

British Gas feels the heat British Gas warned that full-year profits were under threat from unseasonally warm weather in the UK.

BICC confirms cable slowdown BICC, the world's second largest cables manufacturer, underlined the slowdown in the international cables industry by announcing an £80m (\$126m) rationalisation programme and warning of joh

losses. Page 26 Pulp prices under pressure Wood pulp prices are under pressure amid softening demand for paper and a flood of supplies from Rus-

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Alliance forms to rival Telecom Italia Oil groups

By John Ridding in Paris and Andrew Hill in Milan

France Télécom, Olivetti, the loss-making Italian computer group, and Bell Atlantic, the US telecommunications company, yesterday announced plans to join forces in the Italian telecoms market with the aim

of becoming the main rival to state-controlled Telecom Italia.

The planned alliance is a step in the alignment of forces in Europe's liberali-sing telacoms market. It will provide France Télécom and its international part-ners, Deutsche Telekom and Sprint of the US, with improved access to the L30,000bn (\$19bn) Italian market - one of the largest in Europe - through Infostrada, the telecoms company jointly owned by Olivetti

and Bell Atlantic of the US. The venture will also underpin Olivetti's Liberalisation opens way for deal between France Télécom, Olivetti and Bell Atlantic

based computer, information technology

and telecommunications group.

The timing of the announcement was particularly good for the Italian group, which opens its record L2,257bn rights issue today. Many analysts see the capital increase as the last chance for Mr Carlo De Benedetti, Olivetti's chairman and control-ling shareholder, to relaunch the group. France Telecom is set to take a 49 per cent stake in the venture, with Olivetti and Bell Atlantic holding the balance.

When Infostrada was formed in April, Olivetti said it would seek a strong European partner, and until early antumn, it had favoured broadening the alliance to include British Telecomy

The France Télécom link will give Infostrada access to the French company's Atlas joint venture with Dentsche Telekom, and the Phoenix alliance between the two state companies and Sprint of the

Mr Michel Hirsch, international director of the French state-owned operator, said Deutsche Telekom and Sprint were expected to participate in the new company. Mr Michel Bon, who took over as chairman of France Télécom last month, said: "It is a very important agreement. Italy is a key market where Olivetti has recognised

knowledge and understanding."

Mr Hirsch said the venture would start operations in the liberalised sectors of the Italian market, such as services for business. But the goal was to be the leading alternative operator in Italy in all sectors of the market, once national monopolies over voice communications are lifted in

The joint venture could be extended to include owners of telecoms infrastructure, if Italy decides to accelerate the liberalisation of alternative telecoms networks. "It's clear that in parallel with the liberalisation process, we will consider the possibil-ity of buying or using someone else's existing infrastructure," said Mr Marco De Benedetti, Carlo's son and bead of Olivetti Telemedia, the telecoms and multimedia

subsidiary. Lex, Page 18; Strength in unity, Page 33

Michael Skapinker and Maggie Urry report on industry consolidation

Unilever picks new United Airlines and American Airlines both announced this week that they did not see USAir UK arm as a suitable marriage partner. Northwest Airlines of the US and its part-owner, KLM of the chairman Netherlands, are embroiled in a public quarrel which looks like the prelude to divorce. The Northwest board will

today discuss limiting the voting

rights of individual shareholders

to between 15 and 20 per cent.

Northwest has accused KLM, which owns 21.5 per cent of the US carrier's voting shares, of

being "hell-bent on seizing con-

trol of the company". KLM denies

this but is taking legal action to

preserve what it sees as its

These developments might appear to undermine the conten-

tion that the airline business will

soon find itself in the throes of

consolidation, with long-estab-lished carriers disappearing and

a handful of global airline alli-

This view was repeated last

week by Sir Colin Marshall, chairman of British Airways,

which owns 24.6 per cent of USAir, who said each region of

the world would have no more

With the collapse of the USAir

talks and the KLM-Northwest spat, donbts about this view have

grown. One US analyst says: "I

do not buy the idea of a massive

There was a lot of smoke and

very little flame in the United-

USAir talks." But the long-term

pressures pashing airlines

towards mergers and partnership

Boeing of the US, the world's

largest aircraft manufacturer,

says that yields - the revenues

received for each mile a passen-

ger is carried - are in long-term

decline. Some airlines, such as

is

now rising, but

the history of air

travel suggests

yields have been falling by about

2 per cent a vear in real terms

since 1960. It

expects yields to

continue to

decline at a rate of 1.1 per cent a

year between

this

short-term. Boeing says

consolidation in the industry

than three global carriers.

ances achieving dominance.

By Roderick Oram, Consumer Industries Editor

Unilever, the Anglo-Dutch consumer products group, said yesterday it had chosen Mr Niall FitzGerald, head of its detergents business during last year's controversial and costly failure of Persil and Omo Power, as the next chairman of its UK arm.

Long seen as the likely heir apparent to Sir Michael Perry, chairman of Unilever plc, Mr FitzGerald weathered last year's debacle with his reputation as a strong leader and manager

Unilever is run by the "special committee" consisting of the chairman of the UK and Dutch arms plus, usually, one heir apparent. Mr FitzGerald will join the committee in January and succeed Sir Michael in August. Mr Morris Tabaksblat is the Dutch chairman.

Unilever is still spending heavily on marketing to claw back market share lost by Persil and Omo. A catalyst in them reacted badly with a few dyes. causing some dark colours to fade and textiles to weaken.

Known within the company as a risk taker impatient with its complex management structures, Mr FitzGerald is expected to instigate sweeping changes. Before becoming chairman in August, he will lead a review of the group's senior management

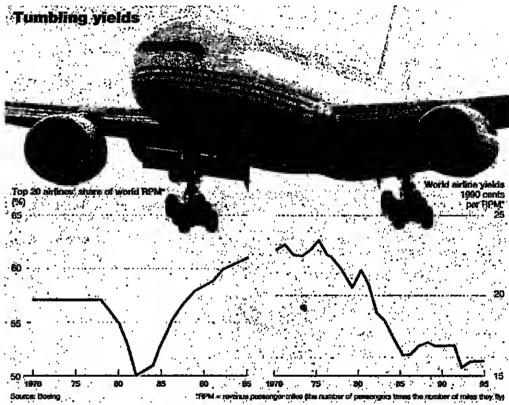
"This very urgent review is clearly designed to address Uni-lever's problem of underperformance," said Mr David Lang, an analyst with UK stockbroker Henderson Crosthwaite. "They will be lucky to achieve 5 per cent profit growth this year com-pared with their target of 8 or 9 per cent in real terms."

Unilever is run by a complex series of committees because of its dual nationality and twin headquarters, in London and Rotterdam. Many managers throughout the organisation express frustration with the structure. Poor co-ordination between countries contributed to Unilever's problems with the Power detergents last year and caused friction between the London-based detergents directorate headed by Mr FitzGerald and some senior executives in the

Dutch arm of the group. Changes to the legal structure the merger of Lever Brothers of the UK with Margarine Unie of the Netherlands in 1929, is

thought unlikely.
Mr FitzGerald, 50, joined Uni-lever in 1967 and is appreciated in the City of London for his grasp of the company and his presentation skills.

Airlines rush to adapt to big changes in the skies



The increase in passengers is good news for airlines, but falling yields are not. The pressure on airlines to cut costs will continue. Mr Chris Avery, an analyst at Parihas Capital Markets in London, believes the purchase of United, report that yields are aircraft is the main area in which

> I do not buy the the more airidea of a massive craft purchased, the higger the consolidation. There was a lot of smoke and little flame in the craft flying on a **United-USAir** talks.'

1995 and 2014, in the 1960s, fares fell as airlines replaced propellerdriven aircraft with jets, enabling them to transport larger numbers of passengers more quickly. In the 1970s, larger aircraft enabled even more people to fly more

Since the 1980s, fares have been kept down by competition. The US industry has been deregulated since 1978. The European Union internal air market will be completely liberalised by 1997. Lower fares will lead to even more people flying. The US Federal Avia-tion Administration says the number flying annually will douhle from 1bn to 2hn worldwide by

larger airlines

can lower costs: Airline partnerships can enable carriers to eliminate the number of airroute. BA's 25 per cent stake in Qantas of Aus-

enabled the two companies to eliminate one Boeing 747 and one 767 from the UK-Australia route without any reduction in flight frequency

tralia

Some analysts believe these advantages will push airlines to continue taking equity stakes in one another. There has been speculation that United will now turn its attention to Continental Airlines of the US. Others say, however, that the

Northwest-KLM difficulties will result in the industry consolidating through alliances without exchanges of equity. This will pool of customers. take the form of code-sharing Mr Robert Crandall chairman agreements, which enable airof American, has condemned lines to place their two-letter codes on flights operated by their code-sharing as misleading to partner. This means that airlines can fly passengers to one city and then offer them onward

consumers, hut has accepted that he must look for a large codesharing partner himself. He has decided not to bid for USAir, but flights to destinations they do analysts believe American - or not serve but which their part-United - might strike a codeners do. These agreements give sharing deal with USAir, and BA, carriers access to a bigger instead.

sign \$480m fund plan for Czechs

By Vincent Boland in Prague

Three western oil companies signed a binding agreement yes-terday on a \$480m investment in the Czech Republic's oil refining industry. This paves the way for a substantial restructuring of the sector after nearly two years of often difficult negotiations. The agreement allows Agip of Italy, Conoco of the US and Royal Dutch/Sbell to proceed with the purchase of a 49 per cent stake in Czech Refineries,

which owns the country's two In July the three companies agreed in principle with the Czech industry ministry to pay \$173m for the stake. The final price will be set next spring. The binding agreement sets out how key issues related to the invest-ment, including environmental liabilities and future control of

the refineries, will be treated. The signing clears the way for Czech Refineries to begin a fiveyear modernisation programme at its two units that is expected to cost at least \$480m, which will be partly financed by the proceeds of the acquisitioo.

The modernisation programme is part of a wider restructuring of the Czech refining and petrochemical sectors that hinged on the signing of the agreement. The introduction of western capital faced stiff opposition from domestic oil interests.

The restructuring involves the creation of Unipetrol, a statecontrolled holding company for the two sectors. Unipetrol will own the remaining 51 per cent of Czech Refineries, which itself is to take over ownership of refineries from Chemopetrol and Kaucuk, two large petrochemical

groups.
Unipetrol will retain its stake until the modernisation programme has been implemented. It will also acquire the state's shareholdings in Chemopetrol and Kancuk, which have been partly privatised, and is expected also to begin an overhaul of the petrochemical industry.

Since July negotiations have centred on how environmental liabilities at the refineries will he dealt with under new ownership. One of the main aims of the modernisation programme is to cut pollution. Yesterday's signing was delayed by nearly two hours as both sides haggled over the small print of the document. Total, the French oil group,

was a fourth member of the western consortium. It withdrew suddenly at the end of June.

Fraud turns sugar market sour

By Deborah Hargreaves

A rise in international sugar fraud could be costing companies in developing and eastern European countries np to \$400m a year, according to the commercial crime bureau which monitors fraudulent trading for the International Chamber of Com-

It is something we're dealing with on a daily basis: it la a worldwide problem and very complicated," said Ms Lin Kno, assistant director of the ICC

bureau. Commodity fraudsters are taking advantage of tightness in the world sugar market as a result of delays in this year'a crop coming to market. Buyers acting for countries desperate to get their hands on sugar are tempted by offers of cut-price cargoes.

Trading companies or banks issue letters of credit or even advance fees on the basis of bogus documentation provided by fraudulent sellers. There is lit tle legal redress if the cargo fails to arrive as the money is hard to

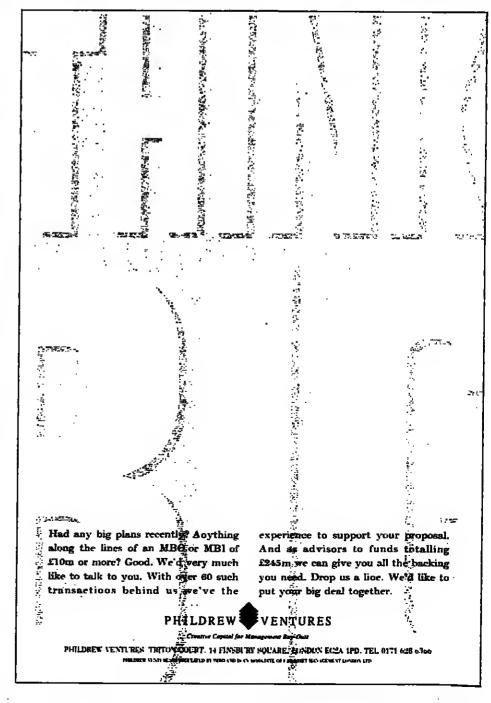
Mr Alan Bray, bead of the frand investigation services at accountants Touche Ross, said: Some of these companies are very naive. They do not investigate their counterparty in the trade and they do not spot the forged documentation."

Mr Bray cites an example of a Bulgarian trading company pay-ing out \$3.8m under a letter of credit to bny 12,500 tonnes of Brazilian refined sugar from a Brazilian trader. But the boat on which the sugar was said to be loaded never arrived and the money was disbursed into five accounts in

The commercial crime bureau says that companies in China, India and eastern European countries are most often affected by commodity fraud. Touche Ross points to examples where a company in Kazakhstan lost \$4m on a single sugar transaction and Chi nese purchasers lost \$40m.

Mr Tony Hannah, economist at the International Sugar Council said fraudulent traders are playing on shortages in the mar-ket. "Sugar is a very volatile commodity and quite high value. Also it is sold from 60 to 70 different origins, which makes It harder to check if it is a bona fide offer." he said.

Mr Hannah said inexperienced traders were fooled by the fact that sugar is often offered from Brazil where production has increased repidly. In addition, port congestion in Santos has delayed some shipments.



EUROPEAN NEWS DIGEST

SNI recovers to DM62m for year

Siemens Nixdorf Informationssysteme (SNI), the computer division of Siemens, yesterday pledged to continue restructuring with further job cuts and productivity measures. The company announced its first pre-tax profits in four years, of DM62m (\$43.8m) for the year to end-September. Mr Gerhard Schulmeyer, chairman, said the continuing fall in computer prices would mean profits would "melt down quickly" unless the company achieved above average growth, particularly

In the long run, the company planned to rebalance its business so that Germany, the rest of Europe, and the rest of the world each account for one third of turnover. SNI is Europe's second largest computer maker, after IBM, and occupies 11th place worldwide. Mr Schulmeyer said four of SNI's 10 divisions continued to make losses, although he

expected all to operate profitably by 1996-97.
Sales rose 10 per cent to DM12.8bn, with new orders up 11 per cent at DM13bn. Investments rose 66 per cent at DM838m. stemming mostly from the acquisitions of Pyramid, a US manufacturer of high-end Unix computers, and of a 10 per cent stake in Escom, the German computer retailer.

Commerzbank's share issue is expected to be oversubscribed with a full 3.2m shares sold at near the current market price. The company had originally set a range of shares to be sold of between 2.76m and 3.2m at a prospective maximum price of 5 per cent below market price. The final issue price is expected to be announced either later tonight or tomorrow morning. Commerzbank expects to raise about DM1hn.

Wolfgang Münchau, Frankfun

Swedbank surges to SKr2.98bn

Swedbank, the Nordic region's biggest bank by assets, said yesterday that operating profits nearly tripled in the first nine months to SKr2.98bn (\$447m), against SKr1.04bn a year ago, excluding capital gains. The improvement was driven by a SKr1.55bn drop in loan losses to SKr1.5bn, but cost control and a 10 per cent rise in net interest income helped. The bank, which was listed on the Swedish stock exchange during the summer after a SKr3.5bn international share issue, has adjusted its forecast for full-year loan losses downwards from SKr2.7bn to SKr2.4bn. It intends to pay a SKr3.5 per share dividend for 1995. Christopher Brown-Humes, Stockholm

Kirch secures film deal

Mr Leo Kirch, the Munich-based media mogul has secured the German distribution rights for a package of films including Schindler's List and Jurassic Park for \$30m, one of the highest prices ever paid in Germany for such a package. Mr Kirch bought the rights from MCA, the US film company, to retain his dominance in the film distribution sector. He clinched the deal following stiff competition from RTL, Germany's commercial independent television channel partly owned by Bertelsmann, the German publishing and entertainments Judy Dempsey, Berlin

Renault sales reach FFr137bn

Renault, the French motors group due to be privatised, said sales rose to FFr137bn (\$28bn) in the first nine months of the year, from FFr131bn a year earlier. Sales in the third quarter alone declined from FFr41.25bn to FFr40.8bn. The company said that during the fourth quarter the first effects of new French government measures to subsidise new car buyers should be felt, but the western European car market was unlikely to show any increase in 1995 over last year. AFX News, Poris

Market Valua and Hidden

Listed Stocks

SEK M

14,000

12,000

10,000

8,000

6,000

4,000

2,000

Reserves in the Portfolio of

■ Hidden Reserves Book value

Ericsson profits jump as mobile phone sales surge

planned, and a significant

increase in Ericsson's share of

the global market for digital pocket phones is now expec-ted." He added that nearly half

of the world's 11.6m GSM sub-

Shares in Ericsson rose 6 per cent yesterday after the Swedish telecommunications group presented unexpectedly strong nine-month profits and said it was building on its leading position in the fast-growing mobile phone market.

Pre-tax profits of SKr4.81bn (\$730m) were up 38 per cent from SKr3.49bn a year ago on the back of a 23 per cent surge in sales to SKr86.9bn. The figures provided clear

evidence of Ericsson's contin-ued success in mobile telephony, where it has increased its share of the handset market to about 11 per cent while consolidating its 40 per cent share of the cellular infrastructure market. Its mobile telephony sales rose 50 per cent and orders were 75 per cent higher. Mr Lars Ramqvist, chief executive, said: "Demand for digital phones for GSM contin-

scribers were connected to Ericsson systems. The group said the number of mobile phone subscribers in the Asia Pacific region was rising by 100 per cent a year and west European subscribers were climbing by 60 per cent. Even in the US - where there

were growing 46 per cent. The group's optimism soothed investors made nervous about the state of demand since Motorola of the US and Finland's Nokia reported slower growth and pricing pressures in the US cellular

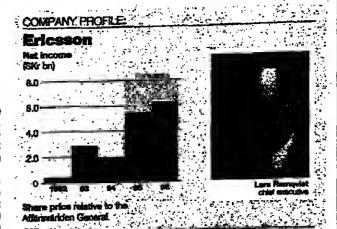
have been fears of slower growth - subscriber numbers

Bricsson's shares rose SKr8.5 to SKr148.5 whila shares in

By Christopher Brown-Humes ... no change in price levels in sharply in recent weeks, rose in Stockholm ... sight. Volumes increased as FM5 to FM238 in Helsinki. FM5 to FM238 in Helsinki. Ericsson has only a small position in the US analogue market where pricing pressures have been greatest

Nine-month sales in the group's radio communications division were 42 per cent higher at SKr37.3bn, after a 50 per cent increase in mobile telephony business. The fastest growing markets are China, the UK, Sweden, Australia and Spain. But some of the biggest order successes have been in the US, Japan and Germany. Mobile business accounted for 60 per cent of the total group orders of SKr78.5bn, up 31 per

cent from last year. There was a more sluggish performance from public telecommunications, where sales rose 11 per cent to SKris.9bn and profit development was weak. The unit has been hit by price pressures and the market for broadband - multimedia operations has taken off more



tial resources and staff are being shifted from the public

side to the radio division. The third-quarter performance continued the strong trends seen in the first half. Sales, profits and orders were all up by about 30 per cent.

raised SKr7.8bn in Sweden's largest ever rights issue, maintained its optimism about fullyear prospects but did not present a forecast. Analysts expect profits of around

less elastic. Appetisers will be discounted slightly in restau-

rants but the main dish prices

maintained - encouraging peo-

ple to buy both rather than

with changing weekly and

annual attendance patterns.

This will mean that staff will

work longer hours at weekends

and during the summer, and

peak demand will be met

through contracts with exter-

His real challenge will be to

ensure that such efforts on rev-

enues and costs can generate

adequate additional income to

pay off the growing interest and royalty charges that Euro

Disney will begin to face from

The company, which has just

eginning of 1995. "We have not achieved the goal that we set of achieving half of our recovery efforts this year," the company said. However, it cited several positive factors such as a stronger order book and good prospects for products such as SDH transmission systems and broadband communication

Part of the fall in ninemonth sales reflected the completion of turnkey projects in eastern Germany, which were previously sub-contracted to

Alcatel SEL

sales decline

30% at nine

months

By John Ridding in Paris

Alcatel SEL, the troubled German subsidiary of Alcatel

Alsthom, the French trans-

port, telecoms and engineering

group, yesterday announced that sales had fallen by almost

30 per cent in the first nine

months of the year to

The decline, which reflects

the downtorn in the German

telecoms equipment market,

was worse than expected. A

statement from the company

sold that full-year sales of a

forecast DM4.5bn Would be

below the target set at the

DM2.29hn (\$1.62hn).

other suppliers.
The problems at Alcatel SEL have been one of the most serious setbacks at Alcatel Alsthom, contributing to a fall into loss this year for the first time in the group's history.

simply skipping the first Mr Serge Tchuruk, who took over as chairman this summer, has announced a radical n the cost side, Mr restructuring at the group Bourguignon is concluding negotiations which involves asset writedowns and exceptional charges with the staff unions to make totalling about FFr20bp. working arrangements more flexible and to bring fluctua-tions in wage bills more in line

To strengthen recovery SEL said it was seeking a control agreement with the parent company. This change would make the subsidiary a division of the group, rather than an independent company, and is in line with the group's plans to tighten management controls at Alcatel SEL.

Industry observers believe that the weakness of controls was an important factor behind the deterioration of results at the German operation and the failure of the group to respond quickly.

Euro Disney makes communication its theme

slowly than expected. Substan-

The group is setting store by cost cuts and better-informed visitors, says Andrew Jack

parks that have opened since -

r Philippe Bourguigr Philippe Boulgue non, chairman of Euro Disney, has a self-criticism to make. He believes his company is a victim of misunderstanding, and that he needs to do more to communicate what it really is. He has previously said he is tired of apologising for the mistakes of the past, when Euro Disney was widely – if simplis-tically – criticised for being too

arrogantly American in its management style. Now, he sees a new challenge. "Analysts, journalists, customers, everyone needs a "Everyone grabs what they

know,
"But the European public did
not know what a theme park was. We are not an attraction park, a chain of hotels, a group of restaurants, or a merchandising company."

His message when unveiling the group's first annual profits yesterday was that the sum is worth more than the parts.

WINDUSTRIVÄRDEN

Continued Earnings Improvement

PLM Introduced on Stock Exchange



make one plus one equal 2% "We need to show people that

we can make one plus one equal two and a half," he says. When Euro Disney opened, the idea of theme parks did not exist in Europe. Now, Mr Bourguignon argues that his group's marketing efforts -combined with those of rival

have raised public awareness and hence boosted the size of the market for everyone. He derives great hope from

the fact that attendance has risen 21 per cent during the current year - from 8.8m to 10.7m - and that a growing proportion of visitors in the past 12 months - 26 per cent at the moment - have been to Euro Disney at least once before. This suggests that a strong repeat market is devel-Yet if external ignorance of

the theme park idea was a problem until recently, so too has been management's ability inside the group to capitalise on tha Euro Disney mix of

r Bourguignon says that "the future dapends on our being better able to optimise those businesses and to increase the leverage between them". For example, be is try-

ing to get travel agents to pro-vide useful hints to customers before they arrive at the park. Once they arrive it is too late to influence them, he says. But if they are told in advance that quenes are worst at lunchtime and they would do better to go back to their hotel during this

period, the results can be

highly profitable. Customers are less frustrated by waiting around with their children, they spend more because they are more relaxed, and they use their hotel restaurants, which are often almost empty in the middle of the day while the fast-food sites in the

park are packed.

He says that Euro Disney's gate prices will remain fixed, at least during the coming

But other prices are being tweaked ever more subtly to

So rates in middle-ranking hotels have been cut, but maintained in the more luxurious rooms for which demand is

next year.

Kumter Gold Company a joint venture of

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Net Worth Per Share and CPN SEK 350 300 250 200 150 100

 Consolidated earnings after financial items, but before gains on sales of stocks and nonrecurring items, rose SEK 182 M to SEK 797 M.

 PLM's earnings after financial items, but before nonrecurring items, totaled SEK 383 M, an increase of SEK 126 M. Inductus' earnings amounted to SEK 207 M (205), and Indutrade's to SEK 80 M (68).

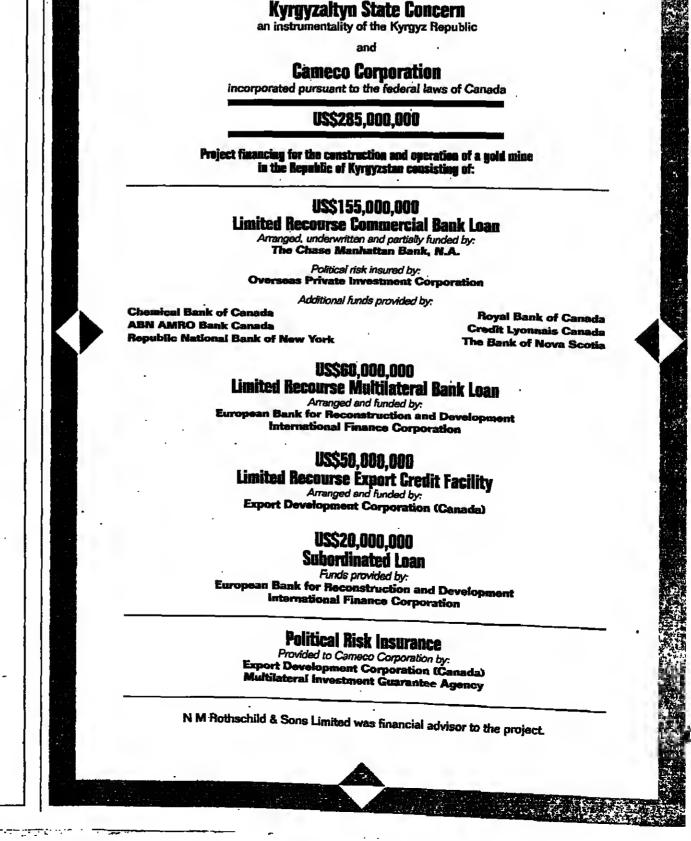
 The value of the portfolio of listed stocks on November 13, 1995, was SEK 13.4 billion. Adjusted for purchases and sales, the value of the portfolio has risen 20 percent since the beginning of the year. The General Index rose by 15 percent during the same period.

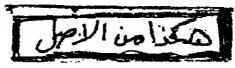
• Net worth as per November 13, 1995, is estimated at SEK 336 per share and CPN.

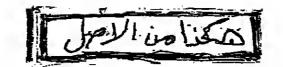
 Industrivarden's stockholders and holders of CPNs were made an offer in October to purchase 55 percent of the shares in PLM for a price corresponding to SEK 3,200 M for the entire company. The subscription period to purchase shares was in effect through November 7, and PLM was introduced on the A-1 list of the Stockholm Stock Exchange on November 13.

• Full-year earnings for 1995, calculated after financial items but before gains on sales of stocks and nonrecurring items, are expected to total SEK 450-500 M, excluding PLM's earnings. The sale of PLM entails a capital gain of over SEK 1 billion, which will be reported during the final quarter of the year.

AB INDUSTRIVĀRDEN (PUBL). BOX 5403, S-114 84 STOCKHOLM, PHONE +46 8 666 64 00, FAX +46 8 661 46 28







INTERNATIONAL COMPANIES AND FINANCE

with US fund manager

By Andrew Fisher in Munich

Bayerische Hypotheken und Wechsel Bank plans to expand its asset management business by co-operating with a blg US fund manager, but has no plans to take a financial stake or seek investment banking acquisitions. Mr Josef Wertschulte, a director of the German bank, said. Negotiations on marketing

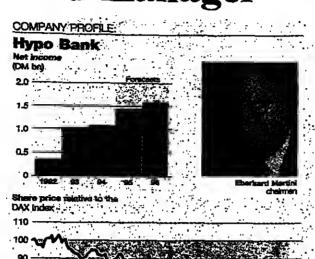
and product co-operation in North America and Europe should be concluded early next year, he added. "We're not looking for an acquisition in this sector as prices are totally exaggerated, he said.

Rival Bayerische Vereins-bank is talking with Oppenheimer & Co. a US securities broker, fund management and investment banking concern, about a possible takeover which could cost about \$500m. Mr Wertschulte declined to name the US company with

which Hypo-Bank was talking but said its assets under managemant were a high double-digit billion dollar fig-ure, mostly on the retail side. and more than the \$40bn Oppenheimer manages.

Co-operation with a new US partner would be carried out jointly by Hypo-Bank and For-eign & Colonial Management, the UK fund manager in which it owns 50 per cent.

Although he saw no sense in Hypo-Bank taking a small stake in its proposed US partner, he said the two sides could later make joint acquisitions to



News of the talks came as Hypo-Bank announced almost flat results for the first nine months, with profits from its various activities showing a mixed picture. Group operating profits were 1.5 per cent higher at DM785m (\$519m), a slower rate of growth than at other big German banks.

The bank had not achieved its targets for net interest income - up 1.8 per cent to DM3.1bn - or commission income - 7.6 per cent lower at DM615bn - reflecting customers' reluctance to buy shares

and fund units at a time of stock market weakness, said Mr Eherhard Martini, the chairman However, costs had been cut

so that basic operating busi-ness, excluding financial trading and before risk provisions, compared well with that of rival banks, although it was down 10 per cent.

Nine-month trading profits of DM122m, against a DM83m loss last time, bolstered profits. However, the bank kept risk cent rise to DM801m

Bank Austria set to raise Sch800m through issue in US

By lan Rodger in Zurich

Bank Austria, Austria's largest bank, is arranging a secondary issue in the US of 1.7m of its preferred shares, 23 per cent of those outstanding, on behalf of a domestic institutional

The issue, which would b worth about Sch800m (\$80.4m) at current market prices, would be made only to US investing institutions under the Securities and Exchange Commission's rule 144a.

It would also test international interest in a much larger offering next year. The Austrian government has said it wants to sell its 20.4 per cent holding of the bank's ordinary

Mr Gerhard Randa, Bank Austria chief executive, said at a press conference in Bratislava to mark the opening of a Slovak subsidiary that the issne would be priced on December 6.

Mr Randa forecast that fullyear 1995 parent company pretax profits would reach "at least Sch5bn", up from Sch4.8bn in 1994 under former accounting rules. He gave no forecast under new accounting rules which would have reduced last year's profit to Sch4.2bm.

He said the parent bank's pre-tax profits in the first nine months rose 13.4 per cent to Sch3.3bn and net assets were up 5.4 per cent to

Mr Randa attributed the improvement, which was in sharp contrast to a 9 per cent decline reported by rival Creditanstalt-Bankverein last week, to a 4.1 per cent rise in credit volume to Sch375bn.

Bank Austria is generally stronger in retail credit business, while Creditanstalt has suffered from weak commercial demand for loans.

Next month's issue would also help improve the liquidity of Bank Austria's equity. At the moment, only 10 per cent of the 24.2m ordinary shares trade freely, with a City of Vlenna foundation holding just under 50 per cent. And only about half of the preferred shares are available to public

Seeking strength in unity

France Télécom and Olivetti extend their horizons

esterday's between France Télécom and Olivetti of Italy, which should see the emergence of an aggressive new international competitor for Telecom Italia, illustrates a number of key trends in the European telecoms market.

The move is part of a general rush by telecoms operators to find appropriate local partners. on the right terms, in preparation for January 1 1998, when competition will be joined in basic EU telecoms services. British Telecommunications,

for example, the most aggressive of Europe's telecoms operators, bas already formed a joint venture in Italy with the Banca Nazionale del Lavoro, called Albacom. A significant advantage for the UK operator is that BNL already operates a private network in Italy over which services can be offered. Infostrada, the joint venture between Olivetti and Bell Atlantic, which will be France Telecom's partner in yester-day's deal, has no such net-work. However, there are a number of possible options. These include Omnitel, the mobile phone company in which Olivetti is the largest

infrastructure from other network owners.
This latest deal is also of importance for Olivetti's ambi-

shareholder. It could also lease

養活 … アイル

deal tions in fixed-wire and mobila advanced telecoms services to services. Eventually operators, will want to offer customers a package of fixed and mobila services as the market opens.

According to Mr Marco de Benedetti, chief executiva of Olivetti Telemedia, the joint venture's aim is to take 50 per cent of the growth in those parts of the market which are opening to competition. These include, for example, desk-top videoconferencing and Internet access. The aim is to take up to 20 per cent of the corporate market in the next three to five

Yesterday's move also demonstrates the importance of local companies allying with partners having global reach. On its own, infostrada is simply a new domestic telecoms operator struggling to establish itself in the Italian market. In partnership with France Telecom, bowever, it has access to a much wider market through Atlas, the joint venture between the French operator and Deutsche Telekom.

It can also benefit from its association with Phoenix, the global partnership involving the French and German opera-tors and Sprint, the third-larg-est US long-haul carrier. The deal will also provide a bridgehead in Italy for tha Atlas and Phoenix alliances.

Atlas and Phoenix alliances. Both are designed to offer

large international companies. They will be in direct competition with Concert a joint venture of BT and MCI, the sec ond-largest US operator, and WorldPartners, an alliance of smaller operators under the leadership of AT&T of the US. Mr Laurence Heyworth of Flemings Research in London said the deal made powerful sense for the companies in terms of both geography and alliances: "France Télécom is as good a partner as Olivetti

could hope for" be said. The Italian market is worth about 1.30,000bn (\$19bn) today, of which L6,000bn - chiefly data services and private con porate voice - is open to com-petition; this should grow by some 10 per cent to 15 per cent a year over the next few years, giving Infostrada a turnover of between L2,000bn and L3,000bn by the turn of the century.

The partners say the investment for the new company over the next two years will be about L200bn, or roughly the amount already planned for investment in Infostrada by Olivetti and Bell Atlantic. Infostrada has already spent about L60bn to L70bn.

> Alan Cane, John Ridding and Andrew Hill

FIRST PACIFIC FIRST PACIFIC CAPITAL LIMITED of a Hong Kong under the Companies Or (Chapter 32) with limited liability) US\$60,000,000 transced Floating Rute Notes due 2000 was ranteed by FIRST PACIFIC COMPANY LIMITED (Incorporated in Bermuda under the Company Act, 1990 with

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J.P. Morgan & Co. incorporated US\$250,000,000 Subordinated floating rate notes due November 2002 In accordance with the ons of the notes, notice is hereby given that for the interest period 15 November 1995 to 16 May 1995 the notes will carry an interest rate of 5.75% per annum. Interest payable on the relegant interest payment date 15 May 1996 will unt to US\$145.3 amount to US\$145.35 per US\$5,000 note and US\$2,907.00 per US\$100,000 note. Agent: Morgan Guaranty Trust Company

JPMorgan

Hypo-Bank plans alliance Berlin bank upbeat despite slowdown in term

By Judy Dempsey in Berlin

Bankgesellschaft Berlin expects a 50 per cent increase in operating results this year, despite a slowdown in profit growth for the third quarter, Mr Wolfgang Steinriede, joint chairman of the board, said yesterday. The dividend will also be raised.

He added that a reduction in risk provisions and an expec-ted surge of business in the last quarter of this year would compensate for the sluggisb

results for the third quarter. Risk provisions for the first nine months of this year fell DM201m, from DM726m to DM525m (\$371m) Bankgesellschaft has already accounted for its share of the debts incurred last year following the collapse of Mr Jürgen Schneider's building empire and Balsam, the sports facilities company. These empayated ties company. These amounted to DM180m. It has also written off DM300m on its securities

The group's oparating trading fell 14 per cent, from

rose 59.4 per cent from DM419m to DM668m and interest income rose 30.9 per cent from DM9.97bn to DM13bn. Net interest income rose 6 per cent from DM2.3bn to DM2.5bn and net commission rose 1.8 per cent from DM453m to DM461m. The bank's balance sheet increased 9.5 per cent from DM246bn for the

whole of 1994 to DM269bn until September 30 of this year. Net results from proprietary

DM58m to DM39m, confirming the bank's continuing weakness in this market despite heavy investments. Its main strengths remain high street banking and mortgage lending. "Given these disappointing results, it will be hard for the bank to post a 50 per cent rise in operating results for the entire year," said Mr Olaf Conrad, analyst at Morgan Stanley. "Its costs remain too high and there has been a general slow-

Administrative expenses

rose 7.2 per cent from DML8bn to DML9bn because of the costs of integrating the differ ent divisions of the bank and unifying its computer system with Norddeutsche Landesbank, which holds a 15 per cent stake in Bankgesellschaft. Bankgesellschaft founded in January 1994 after it merged Berliner Bank, Landesbank Berlin and Berliner Hypotbekenbank, becoming the first German bank in sector joined forces.

Shake-up at Paribas retail banking subsidiary

By Andrew Jack in Paris

Paribas, the French financial services group, yesterday announced a management restructuring and replacement of the chairman at its Credit du Nord retail banking subsid-

Mr François Henrot, former head of Compagnie Bancaire, another Paribas subsidiary, becomes chairman of a newly-created supervisory board for the bank, while Mr Philippe Toussaint, managing director of Crédit du Nord, becomes chairman of its management

Mr Bernard Auberger, the current chairman who was installed at the start of last year with a mandate to return the bank to profitability and improve its marketing, rejoins Compagnie Bancaire as a member of the management

Undar his leadership, the bank reported a FFr19m (\$3.59m) profit for the first half of this year, against a FFr196m loss for the full 1994 year.

Paribas said Mr Auberger had performed a good job, but it had decided it now wanted as a group to be a more active shareholder in Credit du

The new supervisory board will have powers including decisions on investment, risk management and important

Mr Henrot left Compagnie Bancaire earlier this year to become head of France Telécom, but resigned almost immediately to rejoin Paribas when he found he did not have the support of the governmen to bring about the reforms he believed were necessary to move the group towards priva-

All these securities having been sold, this announcement appears as a matter of record only



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November 1995

INTERNATIONAL COMPANIES AND FINANCE

MCA sale sends Japanese Matsushita to first-half loss

this

out the MCA contribution to

per cent higher, Matsushita

The loss on the sale of MCA

also led to a pre-tax loss of

ously forecast, to Y6,660bn

while pre-tax profits are expec-

of Y84.6bn previously.

reports from Tokyo.

with GVC taking the balance.

May 1996, rising to 240,000,

year's sales, group sales

year would have been 2

Matsushita, Japan's largest consumer electronics maker, suffered a group net loss of Y132.9bn (\$1.31bn) in the first half because of foreign currency translation losses relating to its sale of MCA, the Hollywood entertainment group. Net income in the previous first half was Y23.8bn.

But the company is now forecasting that stronger sales of non-consumer products, from cellular phones and batteries to semiconductors, will support a better-than-expected result for the full year.

The company sold an 80 per cent controlling stake in MCA to Seagram, the Canadian drinks groop, in April after major differences over strategy for the entertainment business arose between the Japanese management and MCA execu-

The sale of the bulk of its MCA shares led to a foreign currency translation adjustment of Y164.2bn, Matsushita

The net loss from the MCA sale cootrasts sharply with the parent company's 16 per cent rise in net profits to Y25.5bn which was helped by strong demand for non-consumer electronics products.

Group sales in the first half were also down - by 4 per cent to Y3,221.6bn - mainly because

city bank plans big shake-up

By Gerard Baker in Tokyo

Hokkajdo Takushoku Bank, one of Japan's 11 leading city or commercial - banks, is planning a comprehensive restructuring to hasten the disposal of its heavy burden of non-performing loans.

Y81bn, compared with profits The bank, one of the country's most trophled lenders, Sales for the year are expec-ted to be down 4 per cent, rather than 6 per cent as previsaid yesterday it planned to curb wage costs and to sell some of its fixed assets and securities to alleviate the asset quality problem. The plan could even involve the sale of ted down 68 per cent to Y75bn instead of the Y72bn previthe company's headquarters in ously forecast. Matsushita Sapporo in northern Japan, a expects a full-year group net loss of Y64bn, in line with the near-revolutionary move for a

It could also include the clo- NEC, the Japanese semiconductor maker. Packard Bell Electronics of the US and sure of some branches in Tokyo and a reduction in the bank's overseas operations. As of March 31 1995, HTB had disclosed problem loans of Y479bn (\$4.72bn), 6.6 per cent

Taiwan's GVC Corporation are forming a Chinese joint ven-ture to produce monitors for of total loans, although indepersonal computers, AFX endent estimates of its undisclosed loans suggest tha real figure is probably much Investment in the new company, NPG Display, will be Y4bn NEC said it and Packard higher. Its efforts to write off bad Bell would each hold 35 per

cent of the venture - which would have capital of \$7.4m debts were reflected in its results to the year ending in March, when it reported a pre-The venture would have tax loss of Y8.7bn, a figure headquarters in Hong Kong, that was also affected by with its plant in Guangdong province, NEC said, Initial declines in the value of its securities holdings.

monthly production is expec-The bank bad total deposits of Y8,382bn at the end of ted to be 120,000 units from

Sahaviriya Steel hit by low prices and exchange losses

By Ted Bardacke in Bangkok

Sahaviriya Steel Industry, one of Thailand's largest companies and its only producer of hot-rolled steel products, suffered a third-quarter loss of Bt183m (\$7.3m).

The company blamed foreign exchange volatility and poor world steel prices. It suffered a Bt103m foreign exchange lossin the third quarter becau the appreciation of the US dollar against the baht.
The loss compares with net profits of Bt303m in the first

six mooths of the year. Mr Adisak Lawjun, company president, said that profit margins in the third quarter were squeezed because of the high cost of raw materials in the second quarter. "But we had to

cut our selling price to be in

line with the falling world steel prices," he added. The average profit margin in the third quarter was about

\$178 in the second quarter.

Sales revenue also fell 14 per cent compared with the previous quarter after an 8 per cent drop in sales volume from 220,000 tonnes to 203,000 tonnes and a 7 per cent fall in hot rolled coil prices from \$449 a tonne to \$416 a tonne.

Analysts said excess global inventory of hot-rolled steel products was the main factor hurting Sahaviriya. But they added that the fourth quarter should show some improvement because of lower interest expenses after a refinancing of the company's euro-convertible bond. Domestic demand should pick up as Thailand rebuilds from its worst flooding in a decade. Meanwhile the company said axports had increased to about one-third of output from about 15 per cent at the beginning of the year.

Thai banks held back by credit limit

Bangkok Bank, Thailand's biggest, disappointed the mar-ket after reporting a 6.4 per cent year-on-year rise in thirdquarter consolidated profits. The bank's shares fell Bt3 to

Bt196 yesterday. Consolidated net profits advanced from Bt4.38bn to Bt4.66bn (\$185m) while earnings per share rose from BtA.88 to Bt4.65 in the third quarter. But analysts said the bank's overall funding costs had been

pushed up after deposits had

cent, against a 15 per cent rise in lending business.

Bangkok Bank - like many

of its rivals - has been constrained by the central bank'a insistence that credit growth be limited to 24.5 per cent this year because of concern that the economy might overheat.

Siam Commercial Bank was an exception to the banks' weak results, with net profits of Btl.994bn in the third quarter. Earnings per share rose 28 per cent to Bt5.2 despita a squeeze on interest margins.

mercial might struggle to maintain its profits record; earnings per share grew by 25 per cent and 27 per cent in the first and aecond quarters. A further fall in interest margins was likely in the last quarter, and also a slowdown in prop-erty loans because the bank had reached the central bank lending limit in this sector.

Thai Farmers Bank's net profits were 8.1 per cent higher at Bt2.966 with loan growth at nine months at 14 per cent and deposit growth at 11.4 per cent.

ASIA-PACIFIC NEWS DIGEST

Revamp at Yamaha behind 74% growth

Restructuring at Yamaha, the world's largest maker of musical instruments, helped to boost recurring profit - before tax and extraordinary items - by 74 per cent in the first half to September 30. The Japanese company's sales rose nearly 8 per cent. Pre-tax profits jumped from Y6.15bn last time to Y10.67bn (\$105.1m) on sales which advanced to Y190.93bn, against Y176.95bn a year ago.

Yamaha's results exceeded its forecasts for parent sales of Y188bn and pre-tax profit of Y10.50bn. It said domestic sales rose 6.2 per cent, to Y127.97bn, as a result of strong demand for its magnetic heads, sound-generator LSIs and on-line karaoke system, although sales of musical instruments and sports

equipment were stagnant. Yamaha said the positive impact of the restructuring helped boost operating profit 107 per cent, from Y6.38bn in the corresponding period last year to Y13.21bn. Sales of pianos dropped 8.6 per cent to Y22.92bn and sales of electronic musical instruments fell 4.2 per cent from Y40.31bn to Y38.6hn last year. But sales of audio equipment jumped 39 per cent to Y28.4bn while sales of electronic metals and equipment climbed nearly 37 per cent to Y54.4bn.

 Yamaha Motor, the motorcycle maker affiliated with Yamaha, was hit by the yen's appreciation in the first half. The company saw pre-tax profits drop 59 per cent from a year earlier to Yl.23bn. Sales edged ahead to Y227.29bn, up 1.9 per cent. The company said the decline was caused almost solely by the yen'a appreciation, which slashed the profitability of exports. The company lost Y16.8bn because of the strong yen on a pre-tax basis, part of which it recovered by raising prices. Yamaha also reduced production and administrative costs to make up for part of the damage from the yen's rise.

Minolta Camera ahead sharply

Minolta Camera, a leading maker of cameras and office automation equipment, recorded a sharp increase in recurring profit - before tax and extraordinary items - in the first half year to September 30. The Japanese group's earnings rose from Y542m last time to Y1.04bn (\$10.2m) on sales up from Y92.69bn to Y98.47bn. Profits were boosted mainly by higher overseas sales of copiers, compact cameras and single-lens

reflective cameras, the company said.

Pre-tax profit was also boosted by lower production costs at the company's overseas plants in places such as Malaysia and China. Sales of information-related equipment rose to Y62.23bn, up 4 per cent from the same period a year ago, while exports rose 3.4 per cent, to Y50.94bn, Domestic sales were

Gas attack and quake hit JR East

East Japan Railway, a spin-off of the former national railway system, was hit by the effects of the Kobe earthquake, Tokyo subway poison gas incident and the economic slowdown.

Recurring profit – before tax and extraordinary items – in the fiscal first half declined 5.6 per cent to Y68.16bn (\$671m) while revenue slipped to Y975.46bn from Y988.69bn.

JR East said the slack economy hit passenger traffic which was further affected by the uneasiness created by the poison gas deaths in the Tokyo subway. The railway said the earthquake in the Kobe area of western Japan cut passenger traffic because Tokyo station was the starting point for trips to the west. The quake also cut the commissions JR East earned from other JR operators.

AP-DJ. Tokyo

Samsung sees \$3.24bn earnings

Samsung Electronics has increased its earnings forecast for 1995 from Won1,700bin to more than Won2,500bin (\$3,24bn). The surge in expected earnings is the result of an export boom for semiconductor chips. Samsung is the world's largest producer of memory chips that store computer data and has benefited

from a global supply shortage.
Sales in 1995 are expected to increase by almost 50 per cent to Won16,200bn. Samsung recorded net profits of Won1,131bn on sales of Won7,062bn for the first half of 1995. Company officials have recently told investors that earnings could reach nearly Won3,000bn. John Burton, Seoul

Optional Redemption by the Noteholders

Republic of Indonesia U.S. \$300,000,000

Floating Rate Notes due February 2001

Notice is hereby given, in accordance with the Redemption and Purchase Clause (c) of the Notes, that Noteholders may redeem their Notes in full on the next interest payment date of February 13, 1995 (the "Redemption Date"). Notes in redemption, together with all unmatured Coupons relating thereto, must be deposited with any Paying Agent between the dates of December 18, 1995 and January 2, 1995 inclusive.

FISCAL AGENT The Chase Manhattan Bank, N.A. Woolgate House, Coleman Street, London EC2P 2HD

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Notice is hereby given to the holders of Bonds and Warronts for which the Luxembourg Branch of SOGENAL acts as Fiscal Agent, Principal Paying Agent, Warrant Agent, Paying Agent. Conversion Agent, Issue and Paying Agent or in any other similar capacities, that with effect from January 1st, 1996, these functions will be transferred to the wholly-owned subsidiary of the SOGENAL Group

SOCIETE GENERALE BANK & TRUST 11-13, Avenue Emile Reuter

L-2420 Luxembourg

Dated as af: November 15, 1995 SOCIETE GENERALE BANK & TRUST

SOGENAL

ALLIANCE LEICESTER £50,000,000 Notes due 2004 the three months 15th Nov her, 1995 to 15th February, 1996 the Notes will carry an Interest Rate of 7.105 per cent, per annum with an interest amount of £178.60 per £10,000 principal and £1,785.96 per £100,000 principal and payable on 15th February, 1996.

US \$100,000,000

Continental Cablevision, Inc. Senior Subordinated Floating Rate Debentures due 2004

lance with the provisions of the Debeniumes, notice is hereby given that for the interest period November it, 1866 to February it, 1866 the Debeniumes will to February it, 1866 the Debeniumes will to February it, 1866 on the relevant interest payable on the releva to US Sistern

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For further information about German Pfandbriefe please contact The Association of German Mortgage Banks (VDH) in Bonn, Fax (228) 9 59 02 44.

The German Pfandbrief

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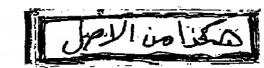
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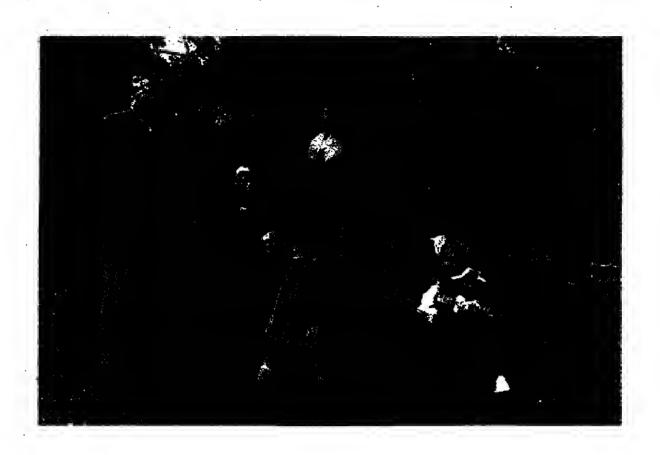
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Nucor seeks to recapture its heady past

Group must overcome several obstacles if it is to repeat its earlier success, writes Richard Waters

ucor, the company which in the early 1990s single-handedly proved there was life left in the US steel industry, has come

down to earth. Shares in the minimill company have tumbled more than a third over the past year, even as US stock market averages have climbed 30 per cent. After doubling sales and quadrupling earnings since the start of the decade, the group's stellar stock market rating has revarted to the marsly

ordinary. Mr Ken Iverson, who has headed the company for the past 30 years, bristles when questioned whether Nucor is running out of growth. "So what's new? Of course it's not sustainabla," he says of the steelmaker's performance since the late 1980s. However, he adds: "I expect we can have growth of 15-20 per cent [a year] in the next five years.

If Mr Iverson is right, Nucor will remain the star of the US steel industry for the rest of the decade. But it will have to overcome a number of obstacles, including a rash of imitators out to copy the company's

The immediate outlook in the US steel market looks sta-ble, if unspectacular. After seeing prices climb steadily as the untry's steelmakers reached full capacity, Nucor led a series of price cuts earlier this year, prompted by falling orders from big users of flatrolled steel such as the car and appliance industries

That, and the effect of higher prices for scrap steel - the basic raw material for minimill companies - has brought an end to the rapid margin expansion of 1994, when Nucor's net profit margin jumped two percentage points to 7.6 per cent. The price cutting looks to be

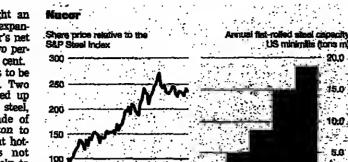
over, at least for now. Two weeks ago, Nucor nudged up the price of cold-rolled steel, the highest-quality grade of sheet stael, by \$10 a ton to \$490. The more important hotrolled steel price has not budged, but looks unlikely to fall further.

This summer's squeeze was enough to dent Nucor's latest quarterly earnings, leading to a fall in net income despite a 9 per cent increase in sales.

With the US economy seemingly poised for continued slow growth, there seems no prospect that profit margins will start climbing again, particu-larly given the batch of new minimills planning to start production soon. Until earlier this year, Nucor

was the only US minimill prod-ucing flat-rolled steel, a process it pioneered at the start of the decade. By using scrap and electric furnaces, rather than traditional blast furnaces, the company proved it was possible to produce the higher grades of steel at a lower cost than the big integrated steel-

The first imitator, Gallatin Steel, began production this spring. At least five others will start np in the next three years, including Steel Dynamics, a company created by former Nucor managers, and Trico, a joint venture between LTV of the US. Sumitomo of Japan and British Steel, Nucor is building a third mill of its



own, in South Carolina, a move steel-making capacity in 1997. Although it will be some years before all this extra capacity comes on line, the new competition has already been felt. Aggressive pricing by Gallatin, intent on securing market for its products, helped force Nucor to reduce prices earlier this year, says

Mr Iverson. Nucor now finds itself in the unaccustomed position of having to catch up with other mills technologically. Gallatin, for instance, is using a new type of electric furnace which Nucor plans to install in its

Meanwhils, Nucor's latest technological leap has run into problems. To cut its reliance on scrap, the company is pic-neering the large-scale production of iron carbide, a substitute material, at a plant in Trinidad. The plant, at a cost of \$90m and rising, has been delayed by what Mr Iverson calls a "design mistake". But if

For now, Nucor exports only about 10 per cent of the 7m tons or so of steel it produces It has been too busy feeding domestic demand to concentrate on developing export markets, says Mr Iverson although he says this will be a priority in future.

Also, he says, the company will attack new markets at home for products such as galvanised steel and fasteners Nucor has just entered the stainless steel market, producing catalytic converters. It is also considering producing steel for car bodies, a higher quality material than it has so far had to produce. With ambitions like these, Nucor is betting that it can repeat its suc-cesses of the early 1990s.

ron carbide produced in Trinidad will provide the raw material for a new technology that could eventually give Nucor an edge over other producers. The company plans to test a revolutionary process in which steel is produced in a sealed unit, without the need for any heat.

It is, stresses Iverson, only a feasibility study - and one which has been stalled by the delay in iron carbide produc-

about 15 times expected 1995 earnings, its shares still sell at a premium to the rest of the For now, Nucor is counting on other factors to retain its stock market value remains cost advantage. These include almost twice that of US Steel. a unionised workforce whose the country's biggest producer.
According to Mr Iverson, the compensation is based heavily on profit-related incentive pay-ments, and a heavily decentralgrowth may be slowing, but it is far from over. In future, he ised culture. Nucor'a greater experience could also give it an says, it will come from the new mill in South Carolina, from a advantage as new competitors wrestle with an unfamiliar broader range of products, and

Sprint to take \$705m charge

Sprint, the US long-distance carrier, will take one-time charges of up to \$705m in the fourth quarter to eliminate 1,600 jobs over two years and to adopt new accounting meth-

period, but will not have an adverse impact on Sprint's operations or dividend policies. the company said.

Canadian railway sell-off receives warm reception



by Canadian National Railway, is due to be priced later today amid signs of an enthusiastic reception among domestic and inter-

national investors. The issue is expected to raise more than C\$2hn (US\$1.5bn), with 40 per cent of the shares sold outside Canada.

One underwriter said the international portion of the offering had been 10 times oversubscribed, with most of the demand coming from US institutional investors with a

sizeable exposure to railway stocks. CN earlier this week increased the price range for the shares from C\$22.50-C\$25.50 to C\$25.50-C\$27.50, reflecting strong demand and a recent rally in US rail shares.

CN is one of Canada's two national rail operators, with 1994 revenues of C\$4.3bn and 18,000 miles of track. The other operator, Canadian Pacific, has for many years been a widelyowned public company.

Although CN remains sub-ject to numerous regulatory an extensive shake-up in the past three years in preparation for privatisation. The workforce has been cut by almost a third, seven out of eight top managers have been replaced, and dsbt has been restruc-

caused some friction in the underwriting group, which is led by Nesbitt Burns and ScotiaMcLeod of Toronto, and Goldman Sachs, the US investment bank.

CN is the first Canadian privatisation without a ceiling on foreign ownership. The foreign underwriting group had initially hoped for a larger alloca-

However, Canadian securities dealers have succeeded in generating strong demand among their clients.

One underwriter predicted that many Canadian investors would take advantage of a small premium in early trading to lighten their holdings, but that these shares would be snapped up by longer-term US

VW forecasts profits boost from S America operations

Volkswagen, the German automotive group, expects its South American operations to contribute substantially to its return to profitability this

The forecast comes despite difficulties in Brazil, VW's second biggest market after Germany, where swingeing import tariffs and a credit squeeze have shifted demand towards smaller, cheaper vehicles in the second half of this

Mr José Ignacio Lopez, VW board member for South America, said VW could retain its 40 per cent share of Brazilian car sales, which amounted to almost 1.6m units last year, despite more difficult trading conditions, recent investments announced by Fiat and other local competitors, and the arrival of newcomers such as

"It is not easy, but it is possi-ble and we will fight for this," he said. VW will be helped by its

decision to build 100,000 units a year of the Polo Classic notchback model at a restructured plant in Argentina. The new car, which is a rebadged Cordoba from VW'a Spanish Seat subsidiary, has just gone on sale in Europe and should begin production in Argentina next May.

Most parts for the new model, which will replace tha

VW will be helped by its decision to build 100,000 units a year of the Polo Classic notchback model at a

restructured plant in Argentina

ageing Voyage sold in South America, will come from Spain. However, VW expects to increase local content

gradually. Mr Lopez said VW did not plan to reimport the new car, to be sold throughout the Mercosur free trade area, to Europe, as adequate capacity existed at its Wolfsburg and

Pamplona plants which cur-

rently produce 1,000 Polos a day. The new model should reinforce VW'a South American earnings in 1996.

Despite the Brazilian downturn, the group's Brazilian and Argentine subsidiaries expect to maka pre-tax profits of between DM610m and DM620m (\$431m-\$438m) this year, making it one of the group's most profitable operations.

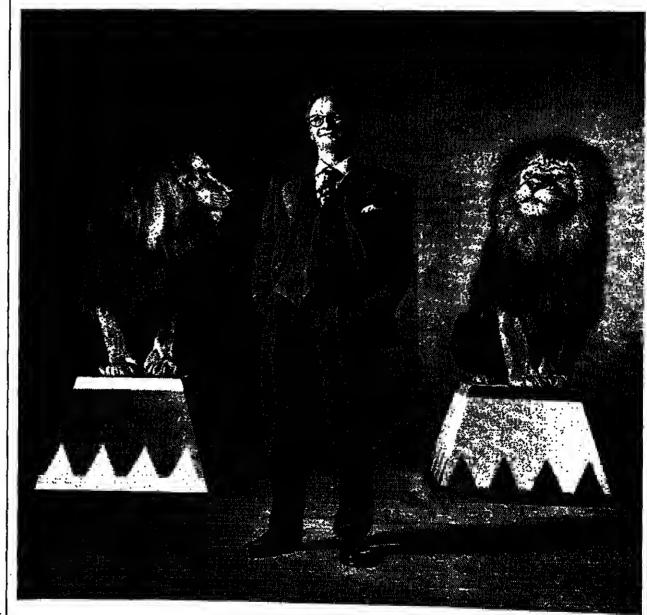
Turnover in cars should reach DM8bn, with trucks and buses contributing a further DM1bn each.

High profits in Brazil have lifted earnings at a number of European car manufacturers operating locally, notably Fiat. Demand for cars is expected to rise to between 1.9m and 2.4m units by 2000.

However, VW has the widest range of cars in the region, while its bus and truck operations have gained substantial market share.

Mr Lopez said the company might broaden its truck range, which extends to a 35-tonne vehicle, to 60 tonnes in future, bringing it into direct competition with established marques such as Mercedes Benz and

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rable with any other bank next door. The close ties that exist between Germany's Southwestern state and its development agency also make for for effective synergies in day-to-day operations. As a symbol of these links, the lions from the state coat of arms, datiog back to the medieval Staufer dynasty, also appear in the L-Baok logo. With the might - and mane! - of a

security team like that, L-Bank is well protected, even in turbulent times. For more information, please contact: L-Baok, Schlossplatz 10/12, D-76113 Karlsruhe, Germany. Telephone INT 721/150-0.

ods for its local telecommunications division, Reuter Renault and Hyundai. reports from Kansas City. The after-tax charges will result in a net loss for the **Lihir Gold Limited**

the plant's redesigned heat

transfer units, due to be

installed by January, work as planned, the facility could soon

give Nucor a new cost advan-

tage over competitors.
Of such technological

advances, the Nucor chairman

says ruefully: "I'd always

rather be second. The person

who does it first takes a bigger

Against this background, it

perhaps no wonder that

However, it would be wrong

Nucor'a stock market rating

to overdo the pessimism: at

risk and has higher costs.

has lost some of its shine.

U.S. \$450 million Global Offering of

385,537,126 Ordinary Shares in the form of American Depositary Shares or Ordinary Shares

Global Coordinator

J B Were & Son

International Coordinator **Goldman Sachs International**

international Offering

52,839,617 Ordinary Shares

This portion of the offering was offered outside of the United States, Canada, Papus New Guines, Australia and New Zeeland by the undersigned.

Goldman Sachs International

HSBC investment Banking

Jardine Fleming

Paribas Capital Markets

UBS Limited

J B Were & Son

N M Rothschild and Smith New Court

ABN AMRO Hoare Govett

United States Offering

52,839,615 Ordinary Shares

Goldman, Sachs & Co.

Merrill Lynch & Co.

Salomon Brothers Inc

J B Were & Son, Inc.

A. G. Edwards & Sons, Inc.

Kemper Securities, inc.

Donaldson, Lufkin & Jenrette

First Marathon Securities Limited

Edward D. Jones & Co.

Robertson, Stephens & Company Johnston, Lemon & Co. **Nesbitt Burns Securities Inc.**

279,857,894 Ordinary Shares

red to retail and institutional investors in Popue New Guinea and Australia and to institutional investors in New Zealand

Financial Adviser

N M Rothschild & Sons Limited

to a farine Martin

Assets swap reshapes building sector

By Andrew Taylor, Construction Correspondent

The biggest ever realignment of the UK construction industry was announced yesterday when two of the sector's largest companies, George Wimpey and Tarmac, revealed plans to swap their bousebuilding. building materials and construction divisions.

Wimpey, already the country's biggest bousebuilder, is to absorb Tarmac'e housing division, almost doubling its size in the private homes market. Tarmac in return will get Wimpey's contracting and ing its position as the UK's biggest eupplier of aggregate and

With turnover of about £1.75bn (\$2.76bn) the combined Tarmac-Wimpey construction division will be the UK's sec-ond largest building and civil engineering contractor, behind Amec. But it will still be smaller than the largest French and German construc-

artific book

the ich operation Sbares of both groups jumped on news of the deal, which Wimpey and Tarmac

heralded as the start of a much needed rationalisation in the construction sector. Tarmac shares rose 9p to 92%p while Wimpey closed up 15p at 127p. Mr Joe Dwyer, Wimpey's chief executive said: "Both

groups had come to the conclusion that they could not provide all of the investment required by a multi-faceted construction group. Instead we are concentrating on the businesses we think will earn the best returns for each group.

Other contractors which have sold or recently announced plans to sell house-building divisions include the BICC subsidiary Balfour Beatty, Costain, Mowlem, Birse Group and Lovell. Ideal s, part of the struggling Trafalgar House group, also is thought to be available for sale if the right price was to be

The asset swap proposed by Tarmac and Wimpey returns both companies to their roots. Wimpey, an ailing west London stonemason bought by Sir Godfrey Mitchell in 1919, has been involved in housebuilding since 1928. Its previous peak production was in the 1970s

when it was building about 12,000 houses a year in the UK Tarmac, which will build about 6,500 bomes this year, overtook Wimpey as the country's biggest bousebuilder in the 1980s but it has struggled more recently. The company only started housebuilding in 1974 and has its roots in quarrying and the production of road surfacing material. It started its civil engineering business in 1929.

Wimpey would appear to have got the better deal. Housebuilding margins, although depressad, are nowhere near as awful as in contracting. And the housing market is expected to recover next year. Tarmac's housing division is forecast to make £40m operating profit in 1996.

Wimpey'e construction and minerals division, by comparison, is expected to make no more than £25m next year. Tarmac, however, insists the swap will not dilute earnings as it expects to make substantial savings by rationalising the two construction businesses and by reducing the higher costs at Wimpey minerals. Neither company could say



Same problem, different solutions: Neville Simms (left), chief executive of Tarmac, with Joe Dwyer, chief executive of Wimpey

how many jobs were likely to be lost, but cuts seem more likely at Tarmac. Wimpey said up to 4,000 employees would be transferred to Tarmac while it would get about half that num-

10000

ber of Tarmac housing staff.
The deal is expected to have limited impact on each group's balance sheet. Wimpey'e aggrebousing division are each expected to be valued at about

Wimpey's contracting business would be transferred at a zero asset value, implying an injection of casb of about £40m-£50m by Wimpay, increasing the company's gearing from about 35 per cent to

Associated British Foods

The Chairman reports on a year of progress

Sales increased by 9 per cent and profits before tax by 16 per cent.

Expenditure on new assets and subsidiaries amounted to £355 million. A major acquisition at the end of the year was a leading speciality oils and fats based food ingredients group in the United States.

A bonus issue of ordinary shares is proposed. The second interim dividend will be paid on the increased share capital, and is a 9.4 per cent increase on the previous year.

Summary of results	1995 £ million	1994 £ million
Turnover	4,894	4,478
Profit before tax	375	324
Shareholders' funds	2,258	2,090
Dividends per share (on the increased number of shares)	8.75p	8.00p

The above are extracts from the Annual Report and Accounts 1995 sent to shareholders on 15th November 1995

Associated British Foods plc, Weston Centre, 68 Knightsbridge, London SW1X 7LQ, England.

Strong CU eyes **US** opportunities

By Raiph Atkins. Insurance Correspondent

Commercial Union, the largest UK-based insurer, said yesterday upheaval among US insurers was providing expansiou opportunities in the country as the group reported a 13 per cent rise in pre-tax profits at the nine months' stage to £369m (\$583m) against a

restated £327m. News of the US push comes as CU relies increasingly on overseas operations to compensate for toughening conditions in the UK - a trend not helped by a £16m rise in subsidence claims in the third quarter. CU said that new operations in Asia would be unveiled early

next year. Separately, the group preempled new US rules requiring disclosure from next year of reserves for asbestos and envimonmental claims, saying it expected year-end provisions of

\$130m and \$300m respectively. Overall profits were lifted by contributions from Groupe Victoire, the French insurer acquired last year, and substantial improvements in the Netberlands and the London insurance market.

The latest figures were after a £12m provision for costs associated with transferring CU's self-employed life direct sales force to Abbey Life. Some 56 per cent of CU's trading profits were generated oversea

CU was not affected by recent Caribbean hurricanes although it was hit by severe weather in North America. Analysts said the results

were in line with expectations, confirming the slowdown in profits' growth caused largely by UK price competition. This was expected to result in 1996 pre-tax profits about £20m below this year's full-year fig-ure, which is forecast at £490m with earnings per share of 50p.

reported improved results at the nine-month stage, although the US profits growth was due to higher investment income rather than improved underwriting figures.

Mr Bob Gowdy, responsible for US operations, acknowledged price competition was fierce but "the market is so huge... there is plenty of oppor-tunity for niche and specialist operations. We have been moving a lot of our business into

City to take on US rivals

London's financial institutions are finally going on the offensive to try to win back lucrative international privatisation business from their American rivals, writes Antonia Sharpe. At a seminar in Jakarta next week, they will

use the privatisation flop of PT Telkom, Indonesia's telecom company, to expose the weaknesses of their competitors, a marketing tactic which US banks widely use when they pitch for privatisation mandate

"It is time to take the gloves off", said Mr Robin Fox, the vice chairman of Kleinwort Ben-son, who is leading a delegation of representatives from the London Stock Exchange, Coopers

& Lybrand, Schroders, ING Barings, Flemings. BZW and SRC Warburg.

Although SBC Warburg was one of four

banks arranging the international offering of Telkom shares, it was lack of orders from US institutions, not UK, which forced the Indone-sian government into the emberrassing position of having to halve the deal to \$540m and price the shares below the original range.

The flop has fanned criticism that the American banks - Goldman Sachs, Lehman Brothers and Merrill Lynch - gave the government an over-optimistic view of likely US demand for the Telkom shares.

Hambros loss after provisions

and Andrew Hill in Milan

Hambros, the UK merchant banking group, yesterday announced a senior management shake-up, and the restructuring of banking activities, after recording an interim pre-tax loss of £7.7m (\$12m) in the six months to September 30, against profits of £21.5m.

Hambros said it was ending some activities including equity broking in Australia, and would cut corporate lend-ing. But it wanted to expand equity fund management arm, either by acquisition or going into partnership.

Its largest shareholder, the Italian bank Gruppo Bancario San Paulo, intends to increase its 14 per cent stake to 19 per cent. However, it said that it supported Hambros independence, and had no plans to raise its stake further.

Hambros Bank made a £23.5m provision for bad and doubtful debts to reflect risks on old loans not fully provided for until now. Directors said the move reflected a decision to adopt a more conservative provisioning policy. There was an exceptional £14.5m charge to cover the costs of pulling out of equity broking in Aus-tralia and some clearing activities, offset by a £5.7m gain on the sale of a £100m residential mortgage book.

COMMERCIAL UNION

9 MONTHS' RESULTS

Profit before tax increases to £381m

- 56% of trading profits arose outside the United Kingdom.
- Continued good profits in the United Kingdom.
- Worldwide life profits £69m higher at £164m.
- Increase in shareholders' funds to £3,785m.

	9 months 1995 Unaudited	9 months 1994 Restated Unaudited
Total premium income	£6,356m	£4,503m
Operating profit before taxation and loss on termination of activities	£381m	£327m
Operating profit after taxation	£271m	£256m
Profit attributable to shareholders	£319m	£305m
Operating profit per share	38.9p	43.2p
The loss on termination of activities amounted to £12m (1994 nil). Profit attributable to shareholders includes realised investment gains after taxel. London market marine underwriting results are now accounted for on a two year.	ion of £48m (1994 £4 fund basis (previous	19m). Ny throe years).

9 months 1994 results have been restated, increasing published profits by £22m.
4. The 1994 operating profit per share has been adjusted for the effect of the 1994 rights issue.
5. Groupe Victoire has been a subsidiary since 13 September 1994 and its results were consolidated for the first time in the fourth quarter of 1994.

Commercial Union plc, St. Helen's, 1 Undershaft, London EC3P 3DQ

Tel: 0171 283 7500 Internet: http://www.commercial-union.co.uk/cu/9mthrslt.htm

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Dawson declines and warns on second half

Dawson International, the Edinburgh-based textilea group, where a new management team took over in March, yesterday reported balf-year profits down 43 per cent because of what Mr Derek Finlay, the new chairman, called "terribly adverse trading conditions", writes James Buxton.

Mr Finlay blamed poor sales on the warmest year since 1659 and consumer confidence still below pre-recession levels. He warned that after a very warm October profits in the second half were unlikely to match those of the first.

Profitability was affected by higher raw material prices, especially for cashmere from China and Mongolia. Cashmere sales volume and margins were particularly depressed because of high prices and weak

In the US its remaining sub-sidiaries J.E.Morgan and Duofold both saw a slight fall in operating profits with margins reduced by higher raw material prices. Production levels there are being scaled back to improve inventory turnover and reduce working capital.

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COMPANY NEWS: UK

Job losses and shake-up underline international industry slowdown

BICC takes £80m charge

RESULTS

BICC, the world's second largest cables manufacturer, yesterday underlined the slowdown in the international cables industry by announcing an £80m rationalisation programme and warning of job

The company which owns Balfour Beatty - the UK civil engineering and construction group, said increased raw material prices and sluggish demand for low-voltage cables would dent profits this year and force it to sell or close

plants, particularly overseas. Its warning follows gloomy forecasts from other cabls manufacturers, such as Alcatel Alsthom, the French telecoms, transport and engineering

Shares in BICC meanwhile, fell 9p to 253p after it said that its housing and construction-related cable businesses had been hit by a downturn in Australia, North America and some European countries, mainly Germany.

group.

company, which employs 45,000 people around the world, said it planned to

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Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. 10nl \$4rist currency. \(\to\) Total income. \(\to\) Comparatives restated. \(\text{X-includes gross rantal income.}\)

9 miles to Sept 30 *
6 miles to Sept 30 *

6 mths to July 31

close its Schönow cables factory in Germany, but refused to name the other plants likely to be affected or quantify the possible job losses

"We're going to have a major drive on productivity and that means taking people out," said Mr Alan Jones, chief executive. Mr Jones, who was appointed in April after being

neering group, warned that Britain's dormant construction market had also put margin pressure on Balfour Beatty. Profits this year will be hit not only by the £80m rational-

recruited from GKN, the engi-

isation charge, but could be further undermined by a £44m goodwill write-off on the sale of BICC's housebuilding business. BICC announced plans to divest the housebuilding business in August, when it reported a 5 per cent fall in first-half pre-tax profits to

Analysts yestsrday down graded profits forecasts for this year from £185m to £110m before exceptional items. After goodwill write-offs and

rationalisation costs, they warned that BICC could report a pre-tax loss of up to £15m.

Warm weather
threat to British
Gas's full year

By Peggy Hollinger

British Gas yesterday warned that full-year profits were under threat from unseasonally warm weather in the UK. Announcing the traditional third-quarter loss, when demand for natural gas is at its lowest, Mr Roy Gardner, finance director, said warm weather last year cost British Gas some £250m (\$395m) in operating profits. This year, he said, "looks potentially worse

While he reiterated the group's commitment to maintain this year's dividend at 14.5p, Mr Gardner said the group would have to examine its policy next year if the situation worsened.

The warning shaved 4p off the company's shares which closed at 241%p and highlighted the pressures that British Gas faces as the UK market is opened to competition. Earnings are suffering as its market share declines and the company faces a potentially severe price review in its pipeline division, TransCo, which accounts for most of its earn-

long-term "take or pay" contracts to buy certain amounts of gas each year at levels believed to be more than twice the market price.

These issues cast a cloud over better than expected third-quarter results. Although net losses for the three months to September 30 deepened from £149m to £181m on an historic cost basis, the increase was fuelled by an expected £83m writedown on the £520m value of gas purchased through the take or pay contracts but not used Turnover fell from £1.3bn to £1.1bn. The loss per share

rose from 3.4p to 4.1p. Stripping out the exceptional charge, net losses improved after cost-cutting in the gas

Profits for the nine months fell from £515m to £454m, on turnover down from £7.05bn to

Mr Gardner expected no quick solutions to the take or pay contract problems. However, if the contracts could not be renegotiated, British Gas would have to consider further

writedowns. Mr Gardner said the comp ny's restructuring was ahead of schedule Lex, Page 18

LEX COMMENT Wimpey/Tarmac

The instinctive reaction to UK construction George Wimpey's agreement to swap its contracting and quarries businesses for Tar-FT-SE-A AL-Share Inc mac's house building division is that both companies cannot have got it right. In fact, they are playing to their traditional strengths -Wimpey in housing and Tar-

mac in contracting and aggregates. Furthermore, the deal gets them both out of an impasse, since they were mable to generate enough cash to finance all their businesses adequately. Still, the balance is tipped in Wim-

pey's favour. It gains around 520m more in earnings than Tarmac, which will have to cut costs to enhance its earnings. This should not be difficult indeed there is more scope for rationalisation of contracting than of housebuilding. But immediate and certain benefits are

Furthermore, the prospects for the UK housing market, as disposable income rises, are rather better than for the con-struction industry. Facing cuts in the UK road-building pro-gramme. Tarmac is placing its faith in the government's private finance initiative. PFI may yet turn out to be the salvation of the industry, but submitting bids is proving expensive and it is still unclear how profitable such projects

bly exaggerated. The deal may reduce the number of bidders for projects, but it will not dent over-capacity. There is little

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Claims that the Wimpey/Tarmac asset swap heralds the long overdue rationalisation of the construction industry are probasign that the industry's negligible margins are set to improve.

BRITISH GAS PLC 1995 THIRD QUARTER RESULTS

Jan 10 Jan 5 Feb 6

CHAIRMAN'S STATEMENT

Results

British Gas's current cost profit before tax during the nine months ended 30 September 1995 was £422 million compared with £578 million in the corresponding period in 1994. Current cost profit for the nine months fell to £155 million from £269 million last year. On an historical cost basis, profit for the financial period was £454 million compared with £515 million in 1994.

British Gas expects to make a payment of £520 million in the fourth quarter for gas not used under its "take or pay" obligations for the gas supply year to October 1995. "Take or pay" obligations

The results include a provision of £83 million made against our "take or pay" prepayments on long term gas purchase contracts. This represents the Directors' estimate of the difference between British Gas's contracted purchase price of gas and the realisable selling price of that unutilised gas.

Our performance has continued to be affected significantly by exceptionally warm weather so far this year. This factor has reduced operating profit by an estimated £120 million compared with the first nine months of 1994. On an historical cost basis our underlying performance, excluding the impact of the weather, has improved marginally over the first nine months of 1994.

Our Exploration & Production division increased current cost operating profit by £139 million to £269 million for the nine months owing to tighter cost control, lower exploration expenditure and higher production. However, since the half year, we have had to limit production from our Morecambe fields in order to help mitigate the current oversupply of gas in the market. As we said at the half year, results from this division for 1995 will be below the level previously anticipated but will be well in excess of 1994.

Restructuring of the UK Gas Business continues well ahead of schedule and non-gas costs bave continued to fall. We expect to achieve savings of over £200 million for the year compared with 1994, Nearly ? 500 people have voluntarily left the Company so far this year bringing the total to over 18 600 out of the planned reduccion of 25 000. On this basis we shall be able to meet our manpower reduction target by the middle of 1996.

Inverest charges fell by £107 million to £46 million benefiting from the \$30 million gain from the early purchase of bonds at the half year and the disposals of Consumers Gas and Bow Valley.

However, all of these benefits have been offset almost contrely by further profit erosion in the industrial and commercial gas market. This was caused by the severe decline in UK gas prices since the first quarter of the year, and by the regulatory enforcement of a rapid loss of market share during the year. Although we passed the MMC target of 55% market chare in May 1994, we were still unable to compete on equal terms, as. Ofgas did not remove the requirement for British Gas to publish price schedules until the end of June 1995. By this time our market share had fallen

TransCo's operating profit was £428 million compared with an estimated £434 million for the first nine months of 1994, despite the adverse effect of the warm weather.

Regulatory Issues

The Gas Bill completed its remaining Parliamentary stages during October and the early part of November and has now become an Act. The framework for competition is broadly adequate, combining some commercial freedom for British Gas, even handed treatment of competing suppliers and measures for consumer protection. However, satisfactory operation of the market will depend largely on the Licences, currently being finalised by Ofgas and the DTI, and their interpretation by the

Competition in the domestic market is scheduled to start in the first pilot area in the South West of England during the first half of 1996. The Nerwork Code, the system which will enable the domestic market to be opened to competition, was due to be implemented on 1 December 1995. However, the DTI has

put back the Appointed Day to 1 February 1996 due to the delay in finalising the legislation. This casts doubt on the possibility of a 1 April 1996 start date for competition. With systems as large and complex as those which will be used in this market, a testing period of only two manths would create significant risks.

The review by Ofgas of the form of regulation for TransCo (our transportation and storage division) is progressing, with Ofgas's views expected early in 1996 for implementation on 1 April 1997. We will continue to make our case for a form of regulation which: ensures an adequate return for shareholders: rewards past investment in the network; attracts continued investment in the infrascructure, and provides proper incentives

Ofgas is also reviewing the British Gas Supply domestic cariff formula for implementation on 1 April 1997. The new formula will apply during the introduction of competition and accordingly, the future regulatory regime should be one which encourages enduring benefits to customers at the same time as allowing suppliers to make a reasonable profit. It is crucial to the introduction of fair and stable competition that restrictions which apply solely to British Gas can be lifted quickly when competition

As we identified at our first half results, the significant surplus of gas currently available in the UK market, the consequent rapid decline in gas prices and the significant, enforced loss of market share in the industrial and commercial market are the main factors affecting the outlook for British Gas. If the exceptionally warm weather experienced to date continues into the fourth quarter, our full year earnings for 1995 on a pre-exceptional basis will be below the level achieved in 1994. As stated at the half year results, it remains the Board's incersion to maintain the

The significant surplus of gas presently available in the UK market and the consequent severe decline in gas prices have created a serious "take or pay" problem for British Gas. Before and immediately after privatisation, British Gas, as a monopoly supplier to the UK market, was obligated to purchase gas to meet the requirements of the entire UK gas market under the most demanding weather conditions. In order to meer those requirements, we entered into many agreements for the purchase of gas on the basis of anticipated and minimum annual contract quantities. If demand falls below these minimums we are required to pay for the gas whether it is taken or not. These "take or pay" contracts were appropriate, and indeed necessary, to meet our legal obligations under our licence to supply this market. When the Gas Act becomes effective no 1 February 1996, our supply obligations will end, but our "take or pay" agreements remain.

The continuing regulatory constraints that caused a sharp fall in our market share to the industrial and commercial market are affecting our results now. However, the loss of market share we shall experience in the domestic market when it opens in competition will further exacerbate the problem.

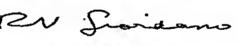
It is not possible to quantify the outcome of the "take or pay" exposure, which will be affected by prices in the now competitive industrial and commercial market and prices in the domestic market when it is fully open to competition in 1998. The outcome will also be affected by the weather, the effect of changes in market share, the future market price of gas, and the role of the Interconnector. These imponderables and their effects are difficult

The most constructive solution to the instability in the gas marker is renegociation of the "take or pay" contracts, with the industry collectively addressing the structural change in the UK gas market. The Government has taken decisions to change the structure of the market. It is appropriate that they support the need for recognitation, and we expect them to do everything in their power to ensure that the contracts are renegotiated. We have begun discussions with producers, aimed at balancing our future

Copies of the Third Quarter Results are complete from Repub Cas pin, Investor Relations Desprised, Phillips 1626, 162 Gregories Read, Lovace SKITY 13. Telephone (17) - 611 2005

purchases with expected sales at prevailing market prices.

We are taking positive action to address the issues facing British Gas and the industry. Discussions will continue with the Government, the Regulator and the producers, in order to reach a satisfactory solution. We believe it would be iniquitous for the cotire burden to fall no British Gas's shareholders. However, we do not underestimate the magnitude of the task. The Board of British Gas is addressing the longer term options upen to us, to ensure we optimise value for our shareholders. We remain committed to our strategy of restructuring and refocusing the business in the UK and internationally, while providing our customers with the best possible service.



RICHARD V GIORDANO CHAIRMAN.

			mt Cost	
		30 Sept 1994		30 Sept 1994
	€m	€m	£m	£m
Turnover - continuing operations	1 113	1 310	5 919	6 378
decontinued operations (2)	1 113	1 310	5 919	7 047
Operating profit/floss) - continuing operations - discontinued operations (2)	(379)	(283)	367	522
	(ATE)	(263)	367	641
Profit/form) on ordinary activities before taxetton	(375)	(275)	422	573
Profit/Goss) for the financial period	(274)	(222)	155	289
Earnings/(loss) per ordinary share	(6.3)p	(5.1)p	3.5p	6.2p
1. The Group unsusted 1995 Third is accounting pulpes are out in 15 Committee 1994. Our properties accounting policy incorporated into Company Ltd. in addition, other referred floorest accounting to the distance of the Company Ltd. in addition, other referred decemberated operations exceed the Company Ltd. in addition, other referred committees the supply.	the Armusi : Squares have the 1894 Arm should the su- med Cornector	Report and A been released uil Report and a of its 65% ha i Interesto wen	counts for the state of the reflect the state of the stat	e peer ende le changes (maumers' Ga with the read

	Current Cost 3 months S months			enthe
	1995	30 Sept 1994	ended 1995	30 Sept 1994
	£m	£m	€m	£m
UK Gas Business: TransCo	(112)	(86)	428	434
Yrading	(289)	(202)	1344	(52)
	(401)	(266)	84	372
Exploration & Production	23	2	269	130
Other activities .	61	3	74 .	20
Continuing operations Discontinued operations:	(378)	(263)	367	522
Overseas gas supply	-			119
	(379)	(283)	367	641

the accounting poloses set our in the Arman Report and Accounts for the year ended 31 December 1994. Consocrative figures have been resusted to helect the changes in accounting policy incorporates into the 1994 Arman Report and Accounts.

2. Given the executive return of the neutrostaving being undertained in the UK Gas Business in his been receivery to prepare the outment and companions figures for TransCo and Traden or an estimated basis which may be subject to subsequent review. In particular in proprint the 1994 marylature, brinder estimates have been made each regard to the phesing of both

British Gas

DIGEST

NationsBank plans bid for Gartmore

NationsBank, the US's fourth largest bank, is seeking a partner to make a joint bid for UK fund manager Gartmore, NationsBank's joint venture partner.

Gartmore's shares closed unchanged at 284p, valuing the ordinary equity at £572.4m. The historic p/e is about 25 and the dividend yield 24 per cent. In September Banque Indosuez said it would seek a buyer

for its 75 per cent stake in Gartmore. The remaining 25 per cent is publicly held. It is understood there are four other serious bidders for the stake.

Norma Cohen and Alison Smith

Unigate to sell Nutricia stake

Unigate, the UK foods and distribution group, yesterday put up for sale its 29 per cent stake in Nutricia, the Netherlands haby-food group. It is hoping to get more than £300m (\$474m) for the stake, which will be sold via a global book-building exercise through SBC Warburg and ABN Amro Hoare Govett. At present share prices, the holding is worth about £329m. At March 31 the investment was carried in the balance sheet at

unveiled a 125 per cent rise in interim pre-tax profits to £50.4m and an increase in the interim dividend to 6.65p. David Blackwell and Antonia Sharpe

Eurotunnel revenues

Eurotunnel, the Anglo-French operator of the Channel tunnel, increased revenues to £31.3m (\$128m) from ticket and duty free sales in the third quarter of 1995 from £51.5m in the second quarter. The figure took revenues in the first nine months of the year to £185.8m. There was a further £24.7m from the British, French and Belgian railways under the minimum usage contract, which guarantees a certain level of payment.

Century Inns renews float plan

Century Inns yesterday revealed that the cost of dropping its flotation in February had knocked £1m off last year's profits. The north-east of England pub operator is making a second. slightly less ambitious attempt to join the full list. It is aiming for a valuation of about £55m (\$87m), £5m less than at the postponement. New money will also be slightly less, at £30m. The money will be raised through a placing coupled with a clawback to meet demand from retail investors. Broker to the issue is UBS, and N.M. Rothschild is sponsor, Wise Speke is the sponsored intermediary.

The pathfinder prospectus shows that pre-tax profits for the year to the end of September were £4.9m, including the failed flotation costs and £2.96m of interest payable.

Tom Cobleigh priced at 150p

Tom Cobleigh, the independent pub group, yesterday finalised its flotation, pricing the shares at 150p. At this price the chain, which makes 90 per cent of sales through its 46 managed houses, would have a market value of £59.8m (\$95m). About houses, would have a market value of 103.5m (\$50m). About 15.4m shares from a total of 39.8m are being placed by Hoare Govett, broker to the issue, mainly with UK institutions. The placing, sponsored by Samuel Montagu, will raise £23.1m of new money, ahead of original expectations. The prospectus shows that in the six months to September

30 pre-tax profits were £1.04m on sales of £9.5m.

David Blackwell



certain service sector businesses investing in Birmingham can now apply for the highest levels ant assistance available in Great Britain.

For farther information contact The Business Location Service of

0121 235 2222 Similarium City Council

Notice is hereby given that for the interest period 16 November 1995 to 16 February 1996 the notes will carry an interest rate of 5.75% per annum. Interest payable on 16 February 1996 will amount to US\$14.69 per US\$1,000 note.

Kingdom of Sweden

Floating rate notes 1996

US\$1,500,000,000

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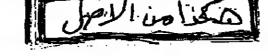
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B JELLER



COMMODITIES AND AGRICULTURE

Health-conscious Americans take bite out of gold market

wanting another material usu-

ally opted for a tooth-coloured

resin, more expensive than

amaigam but much less costly

because "it is tried and true and wears like natural teeth."

she said.

Europe 'pose problems for EU'

higher yields.

the year 2000.

Gold had its adherents

According to the Gold Fields

duce 20m tonnes of grain, in

Sm tonnes on last year, due to a fourth successive year of

The Hungarian crop has

been revised down to 10.4m

tonnes, lower than last year's

11.1m tonnes, because of farm-

ers' failure to apply herbicides on time. But it is still well up

on the 1993 crop of just over

As a result, says Dalgety, the

central and east European (CEEC) countries are expected

to export 5m to 6m tonnes of

grain this year - a figure the

European Commission recently

predicted would be reached by

"This turnaround is due to ever increasing yields and a significant reduction in inter-

nal usage predominantly

owing to a reduction in animal

The main beneficiary is

numbers," says the report.

By Kenneth Gooding, Mining Correspondent

US investors might be bored by gold but a growing band of health freaks in America are using the metal to have their teeth filled.

Some people are even claiming that their sexual potency and memory have improved after amalgam fillings have been replaced with gold, said Ms Helen Junz, director of gold economics service at the World Gold Council, yesterday. She stressed the council was

not making these claims but added: "You can understand that some people would be worried about what they are carrying around in their mouths and prefer to have 'pure' gold in their teeth".

The council, a promotional organisation financed by some big gold mining groupe, reported yesterday that the use of dental gold in the US

An upturn in grain production

in central and eastern Europe

coses a growing problem for the European Union, according to Dalgety, the UK animal feed

company. Eastern European countries

have been net importers until recently, and this is still true

for many countries of the for-mer Soviet Union, it says in s

But now several of them

have become net exporters,

competing in some of the EU's

traditional markets and posing

difficult questions over their

Poland's harvest this year is

estimated at 25m tonnes, an

increase of 15 per cent on last year and the highest harvest

for four years, says the report.

region's second biggest cereal

Romania, which is the

CropPlan report.

accession to the EU.

Nations Bank pla

bid for Gartmon

jumped by 18 per cent in the first nine months of this year compared with 1994 to 9.2 tistry world-wide last year increased only marginally,

tonnes (295,817 troy ounces). from 63.4 to 64 tormes. The American Dental Associ-Nevertheless, in some countries there had been a big shift ation, after completing several research projects, insisted that amalgam fillings were not a to dental alloys with a high gold content. For example, in health hazard and said only 2 per cent of US dentists did not use the material. Ms Teri Reis-Germany an increasing number of patients are opting for gold, despite its higher price, because they rightly or wrongly perceive it to be far Schmidt, editor of the US Dental Products Report, acknowledged there was increased more bio-compatible than any interest in gold fillings but insisted it was very urmsual for anyone to have amalgam removed and replaced. Those of the alternatives".

Meanwhile, in its Gold Demand Trends quarterly publication yesterday, the Gold Council reported that the amount of gold consumed in the markets it monitors - representing 75 per cent of total global demand - increased by 16 per cent to 2,042 tonnes in the first nine months of this year. That ensured that gold demand in many countries

would reach record levels in 1995.

larly Russia, which has suf-

fered its worst harvest for 30

But grain demand in the for-

mer Soviet Union has dropped

dramatically from over 22m

tonnes in the late 1980s to

about 6m tonnes this year,

because of the reduction in

CEEC switching into being net

exporters must give us some

cause for concern," says Dal-

gety. "There is clearly a

long-term risk, particularly if the CIS gets back to harvesting

well over 200m tonnes as it

used to do regularly in the last

The CEEC surplus could

exceed 25m tonnes by 2000, it

says, However, it stresses that

this assumes consumption in

the region remains unchanged.

In practice, it is likely to rise

"This, coupled with the

livestock numbers.

decade."

likely to be the Commonwealth as economies strengthen.

Bigger crops in central and eastern

Producers of southern hleached softwood kraft have also rolled back recent price increases from \$970 to about

mills have announced cut-backs. For instance, Harmac Pacific, a large Canadian producer, plans to shut a British Columbia softwood pulp mill for two weeks over Christmas

The Indonesians and Ruschases, mainly from Sonth Korea and Taiwan, have been hit by a new import dnty. European and North American

Until last summer, pulp was among the strongest performing commodities during the current business upturn. NBSK prices have soared from \$390 to \$1,000 in less than two

Slackening demand hits pulp prices

By Bernard Simon in Toronto

Wood pulp prices are under preseure amid softening demand for paper in many parts of the world and a flood of supplies from Russia and Indonesia.

Producers of northern bleached softwood kraft pulp (NBSK), the industry's benchmark product, have so far managed to maintain a price of US\$985-\$1,000 a tonne, which they implemented on Oct 1, but aggressive discounting has begun in several other grades.

According to one Vancouverbased treder, the entire market is "in a very sensitive situation" with prospects himgeing largely on demand for paper in the first quarter of 1996.

Prices of come hardwood grades have tumbled below \$700 a tonne in recent weeks, from list prices of around \$875. Several eucalyptus mills in Spain, Portugal and South America have been closed in an effort to bring down stocks.

Several North American

to reduce stocks. sians are burdened by surplus capacity and are said to have been especially aggressive in the hardwood pulp market. In addition; Chinese paper pur-

demand has also softened.

Brazil's aluminium boom stalls The optimism of the early 1980s has faded, writes Angus Foster

t Latin America's big-A gest private sector aluminium refining and smelting project, operations manager Mr Edison Daniel da Silva points to a plot of land the size of several football pitches. It is the last plot left to expand capacity at the giant Alumar plant in northern Brazil, already responsible for about a third of the country's 1.2m tonnes of annual primary aluminium production. "With the present equipment, we can't go much further," he says. "What we could do is extend line 3, which would add another 55,000 tonnes."

Bnt uncertainty about the world market and the plant's electricity supply are delaying any decision and Alumar's owners have no plans to make the investment. Brazil'e alu-minium industry has become equally circumspect. The forceful optimism of the early 1980s. when projects like Alumar were built and financed, has been replaced by a more cantious attitude.

. "I don't think you will see a lot of smelter building any more," says Mr Fausto Penna Moreiro Filho, president of Alcoa Alumínio, the Latin American arm of Alcoa of the US, which is also the main shareholder in Alumar,

"The old idea that electricity was cheap is no longer true. You may see some incremental smelter expansions, but you won't see any green field sites being built."

The new realism was born of more than a decade of disappointment as Brazīl's economy refused to grow during the 1980s. Investments in the aluminium industry, which more than tripled output between 1978 and 1985, had assumed the economy would continue to grow at 7 per cent or more. Instead, per capita GDP actually fell during the 1980s.

With growth under way again since 1993 and inflation apparently under control, confidence is returning. Aluminium consumption rose 19 per cent last year and is forecast to grow another 9 per cent this



plant in the State of Pernambuco

year to 510,000 tonnes, Abal, the industry association says.

Mr Luis Carlos Loureiro
Filho, co-ordinator of the association's economic commission, says cans and artefacts like kitchen pans have been star performers. With lower inflation, poorer consumers started buying canned bever-

thsir resl incomee roee sharply. One comparison industry members like to repeat shows the average Brazilian consuming ten cans a year, compared with 360 in the US. Three canmakers, including Crown, Cork & Seal and American National Can, have announced they will start production in Brazil, suggesting this sector is set for

ages and bousehold goods as

continued growth. Despite such apparent good news, not one of the country's six producers of primary alnminium is planning to lift capacity, which has scarcely increased since 1990. With world stocks of the metal still high by historical standards,

MEAT AND LIVESTOCK

and with Brazil's economy slowing since the second quarter, such caution may be well placed. But some analysts wonder whether a more fundemen-

tal rethink is taking place. "Is the non-investment in the 1990s a function of consolidation, or is the industry losing faith in its role as a smelter in the future?" asks Mr David Humphreys, an economist at RTZ, the UK mining group.

Brazil's mounting electricity

problems are a further source

of doubt. Underinvestment in generatioo in the past decade has left the country facing an energy shortage if present economic growth of 5 per cent a year continues. Average electricity prices for the aluminium industry have doubled since 1985 to US\$34-39 per MegaWatt Hour, Building more giant bydro-electric dams in the Amazon, like the Tucurui dam, which supplies Alumar, would now be difficult to finance because of environmental concerns,

According to Mr Louretro

Filho at Abal, Brazil needs to remain an integrated producer because it needs to compete in arees of high added value goods rather than simply exporting primary products. As the world's sixth largest alu-minium producer, the country also has the scale, as well as the natural resources. "Brazil will remain attractive as a producer of primary aluminium because of its market, which is now about 500,000 tonnes and which has the chance to grow,

However, reticence about increasing capacity will quickly impact on overseas sales of primary aluminium from Brazil, one of the world'e biggest exporters. Exports peaked at 817,000 tonnes in 1992 but have since declined as producers have switched to the recovering domestic market. Abal estimates exports this year will fall 6.2 per cent to 729,800 tonnes and slip fall towards 700,000 tonnes oext year if the domestic market grows at 6 per cent as expec

Trade in the primary materi als of bauxite (aluminium ore) and alumina (aluminium oxide) will be less affected. Extra domestic demand for bauxite can easily be absorbed by increasing production at the country's buge reserves in the Amazon. The Alunorte alumina project, stalled for several years because of financing problems, finally etarted operations in July. It is due to produce 230,000 tonnes this year and reach capacity of 1.1m tonnes a year in 1997.

The likely slowdown in exports of primary aluminium may herald a lower international profile for Brazil's aluminium industry, but it may have been inevitable for an industry that grew up too quickly.

"So you will just see a shift from exports to the domestic market as it grows. We have enough aluminium capacity in Brazil to supply the domestic market for the next 15 years, says Mr Moreira Filho at

producer, is expected to pro-COMMODITIES PRICES

LONDON METAL EXCHANGE ALUMINIUM, 99.7 PURITY (\$ per tonne)

Kerb clase

1629.5-30.5

1622-4

222,581

ALUMINIUM ALLOY IS per tonne

1663-4 1667-8

1673/1656

High/low		
AM Official	1365-75	1405-10
Korb close		1410-20
Open int.	3,455	
Total daily turnover	2,521	
■ LEAD (\$ per tonn	e)	
Close	676-7	673-4
Previous	684-5	682-3
High/low	579	679/672
AM Official	678.5-9.5	578-8.5
Kerb clase		676-7
Open int.	32,116	
Total daily turnover	5,726	
■ NICKEL (\$ per to		
Close	8235-45	8355-60
Previous	8450-80	8570-7E
High/low	8340	8560/8280
AM Official	8340-45	8455-80
Korb close		62 85-9 0
Open Int.	42,921	
Total daily turnover	14,848	
TIN (\$ per tonne)		
Close	6275-85	6915-20
Provious	6350-60	6390-400
High/low	6290	6370/6290
AM Official	6290-95	6340-45
Kerb close		6320-30
Open int	17.642	
1ctat daily turnover	7,003	
R ZINC, special his	ih grade (5 per	
Close	1003.5-4.5	1027-8
Previous	1011-12	1035-6
High/low	1011/1010.5	1056/1028
AM Official	1010.5-11.0	1034-5 1029-31
Kerb close		1028-01
Open utt.	84,898	
Total daily turnover	14,593	
LCOPPER, grade	A (S per tonne)	
Close	2955-60	2755-6
Previous	3018-33	2795-7
High/low	2975	2780/2744 2774-5
AM Official	2978-80	2747-48
Kerb close	176,836	2.4.40
Open int.	170,030	

				_ 76 622	
Feb	175 20	-1.5	-		
Mar	177 60	-145 125	40 123	0 1,325 9,331	
	153.30	. 1 30		202	
No.	171 165	- 1,50	-	8,425 38,647	
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Cat a	rost 3	92.00.50	2.46		
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Spot .			M180	540.25	
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1 444			en 75	558.25	

€ equiv. 247-249

Precious Metals continued M GOLD COMEX (100 Troy oz.; \$/troy oz.) -0.9 387.8 385.5 54,807 75,982 -1.1 389.0 386.8 9,327 29,897 -1.4 390.6 388.6 589 82,47 -1.5 393.0 382.0 406 14,725 -1.6 - 950 3,254 387.0 389.0 391.2 R PLATINUM NYMEX (50 Troy oz.; \$/troy oz.) 417.5 +1.5 419.0 415.5 3,065 16,622 +1.5 418.2 476.5 40 2,450 +1.5 - 10 1,861 +1.5 419.0 478.0 3 373 +1.5 R PALLADIUM NYMEX (100 Troy oz.; \$/troy oz.) 138.65 +0.55 138.75 138.00 175 4,189 137.45 +0.55 137.00 137.00 27 2,097 138.80 +0.55 ~ ~ ~ 127 202 8,413

Close Previous	676-7 684-5	582-3	III SH	VER CO	MEY 6	000 Te	nu na • (Centrel	my oz)
Highliow	579	879/672		_			_		_
AM Official	678.5-9.5	578-8.5	HOW	533.2	+2.6	-	541.5	20	2
Kerb clase	01000	676-7	Doc	534.2	+2.2	537.0		16,061	
Open int.	32,116		Jan	535.7	+22	538.5	538.5	. 4	34
Total daily turnover	5,726		Mar	541,7	+2.2	544.5		5,333	24,300
			May	545.8	+2.3	547.6		3	8,623
■ NECKEL (\$ per to	nne)		Jel	549.8	+24	221 T	549.5	39	5,945
Close	8235-45	8355-60	Total					21,615	106,133
Previous	8450-80	8570-7 C							
High/low	8340	8560/8290							
AM Official	8340-45	8455-80							
Korb close		8285-90							
Open Int.	42,921		FNF	RGY	•				
Total daily turnover	14,848								
TIN (\$ per tonne)			■ CR	UDE OIL	NYME	X (42,0	00 US	70 16. S	(Jene)
Close	6275-85	6315-20			Day's				Open
Previous	6350-60	6390-400		buce	cyanda	High	Low	Vot	int
High/low	6290	6370/6290	Dec	17,94	+0.12	17.97	17.82	25,668	40,378
AM Official	6290-95	6340-45	Jan	17.65	+0.00	17.68			86,184
	OLDO DO	6320-30	Feb	17.43	+0.07	17.45	17.38	5,973	39,056
Kerb close	17,642		Mar	17.30	+0.08	17.34	17.27	6,412	21,299
Open int	7,003		Apr	17.16	40.03	17.22	- 17.16	3,263	12,545
1otal daily turnover	-		May	17.10	+0.04	17.10	17.08	1,418	9,395
R ZINC, special his	h dunge (2 be.		Total					71,253	329,114
Close	1003.5-4.5	1027-8	■ CR	UDE OIL	PE (S	фалаў			
Previous	1011-12	1035-6	_	1-4-4					Open
HighAow	1011/1010.5	1056/1028			Day's		Low	Wei	int
AM Official	1010.5-11.0	1034-5		-	change	_			
Kerb close		1029-31	Dec	16.74	+0.12	18.75	18.65		17,268
Open att.	84,898		Jan	18.46	+0.09	16.50	16.37		83,064
Free! daily turnover	14,593		Feb	15.23	+0.05	16.26	16.2 0		16,841
COPPER, grade	A (S per tonne)		Mar	16.07	+0.04	16.11	16.05		12,875 7,583
Close	2955-60	2755-8	Apr May	15.93 15.87	+0.02	15.99 15.87	15.81	2,548 - 20	1,937
	3018-33	2795-7	Tetal	13.04	TALLE	10.0	14441		153,812
Previous	2975	2780/2744							
High/law	2978-80	2774-5		ATING C	GL XYME	X (42,01	אין פט מו	a; cus	gelle.)
AM Official Kerb close	2010 22	2747-48		Lutest	Day's		٠.	•	Coes
Open int.	176,836				change	High	Low	Vol	
Total daily turnover	101,007		Dec	51.75	+0.19	51.95		13,993	
I LME AM Official	C/S rate: 1.580	13	Jan	52.00	+0.26	52.15		4,847	
LME Closing C/S	rate: 1.5500		Feb	51.5 0	+0.31	61.60	51.16		24,030
THE GIVENNY DA		5 0 mile: 15/77	Mec	58,10	+0.28	50.30	49.95	1,477	
Spot 1 5581 3 mille: 1.5	549 6 mins. 1 551	3 5 400 mm	Apr	48.50	+0.21	48.60	48.50	187	4,869
HIGH GRADE CO			May	47.40	+0.26	47,40	47,40	216 22,780	
		Open	Total		-			اللاميت	
Succ Day's	e High Lond	Vol let	GA.	S OIL PE		7			
	D 136.55 134.20	251 1,629		Sett	Day's	-	Low	Vol	Open let
		8,547 17,686		price					
	5 129 40 127 60	51 965	Dec	184,00			152.75		29,901
		26 622	Jen	154.25			153.50		21,110
Feb 12520 -125 Mart 12350 -14	5 125 40 123 20	1,325 9.331	Feb	152.75		153,00		701 104	7,267 4,240
		_ 202	Man	57.50			151.00		2,404
Appr 17185 - 134 Testat		8,425 38,647	Apr	150.00			149.50	120 50	1,090
-44			May	148.50	+0.25	148.50	14825		74,922
DD-01016	ACTAL C		Total	TURAL G		ecy ma	000 mm	-	-
PRECIOUS	MEIALO		MAT		_	The State			
E LONDON GULLK	M MARKET			Latest	Day's				Open

Inter Days price elenge High 1.910 +0.004 1.915 1.923 -0.009 1.936 1.955 -0.005 1.973 1.990 -0.005 1.795 1.998 -0.012 1.709 1.702 -0.013 1.710 1.891 14,536 28,390 1.908 0,310 28,566 1.850 5,996 15,740 1.775 2,886 13,473 1.690 1,823 8,875 1,985 1,587 6,976 28,998 142,122 7,754 17,356 3,849 16,990 1,854 6,937 702 3,193 327 3,706 33 1,860 14,708 52,859 +0.82 51.45 50.65 +0.66 50.00 50.25 61.05 50.70 \$1.05 53.40 53.40

WI:	AINS EAT LCE						SOF
	- Sett	Day's change	Histo	Low	You	Open Int	
iay	128,00	_	128.00		28	88	Dec
ipro.	129.00		T29.00		197		Mar
lar Jay	137.00 133.00		131.00		384 240	2,422 2,879	Hey Jal
	135.25	+1.15	135.25	134.90	36	155	Sep
iop Intel	116.50	-1.00	117.00	117.00	918	8,223	Dec Total
E WH	EAT CET	(5,000	ibu min	; cents/			■ C00
)ec	484.25			483.50			Dec
ler to	486.75 454.25			486.00 453.00		44,465	Mar
lay Idi			415.50			18,273	.ini
Jec Jec	414,00 422,75		415.50 424.00		38 241	2,878 981	Sep
etal.	45574	-135		-	29,282		Tetal
R MA	IZE CBT	(5,000	bu mia	cents/	5605 bu	shelj	E 000
)ec	320.75	-1.00	323.75	320.25	47,635	122,487	Mov 14 Daily
iler Say	328.25			328.00 328.75		242,961 39,755	
M	326.75	-0.75	329.25	325.25	7,470	52,179	M COF
iop ioc	290.00 277.25	-1.00	291.25	269.75 277.00		9,228	Jen -
MC Whi	212	-0.30	£ 0.30		4,376 150,298		Mar
BA	RLEY LC	E (£ pe	r tonne)			May Jul
ior .				118.00		72	Sep
len Jer	119,60 121,80		119.65 122.00	119.50 121.00	51 98	977 694	Total
tay .	124.15	-0.75	124.15		11	242	Dec
iep iev	113.50 113.50	+1.00	Ξ	-		12 5	Mar
otal					178	1,990	Mary Jol
_	YABEAN						Sep
lov lon	669.50 674.75	-0.75 -2.00	673.25 679.00	869.00 674.25	2,032	3,011 51,924	Dec Total
	882.50	-2.25	687.00	882.25	8,191	38,558	■ COF
by W	686.75 686.75		690.75 693.00	686.50 688.25		12,959 17,404	Hor 14
يوما	688.00		688.50		74	974	Comp. da 15 day n
interior	YABEAN	OIL C	3T (50.0	000bs:	55,375 Centa/It	-	
lec .	25.43	+0.06	25.58	25.35	16,329	27,887	■ No7
len Jar	25.58 25.96	-	25.77 26.13	25.55 25.95	10,550	25,405 15,800	Jan Mar
	26.26	+0.01	25.42	26.30	2,757	8,765	May
اط وما	26.43 26.50	-0.01	26.65		1,199	7,187 1,225	Jai Total
ielal					38,064	88,201	■ WHI
	YABEAN						Dec
ec an	206.5 207.6	Ξ	207.2 209.4	206.4 207.6	13,356 8,896	32,947 25,387	Mar May
	209.5	+0.3	2:03	209.4	6,260	23,410	Aug Oct
ط اط	209.5 209.7	40.1 40.1	218.4 210.4	209.5 209.5	1,698	7,548 9,110	Dec
	208.2	+0.4	206.8	208.2	75	969	Total
	TATOES	LCE (C	tonne)		31,780 1	MI-PIN	■ SUG
ler .	270.0		_	-	_		May
pe l	267.0 305.0	-15.3 -30.0	278.0	265.0	144	1,180 0	Jal Oct
DE.	325.0	_	-	-	.=	_	Mar
otai	вант (в	FFEX	LCE (S1	O/Index	144 (point)	1,188	May Total
PHI	1740	-20	1765	1735	59	657	■ cor
lor	1680 1629	-59 -81	1745 1705	1675 1605	81 297	253 1,266	Dec
lav lec	1620	-80	1700	1500	Z28	1,366	May
par loc loc		-53	1420 1580	1426 1580	5 21	405 51	Jed Oct
int loc loc	1420	-47			664	4,088	Dec Total
lov loc loc loc loc loc loc loc	1420 1533	-					E ORA
ior loc un pr ut lot otal	1420 1533	-47 Prev 1881					_ On-
ior loc un pr ut lot otal	1420 1533 Close	Prev					Jac
ior loc loc loc loc loc loc local	1420 1533 Close 1706	Prev 1883		-145			Jan Mor May
ior loc loc loc loc loc loc local	1420 1533 Close 1706	Prev 1883	ad by C	ZAKS.			Jan Mor May Jul
ior loc loc loc loc loc loc local	1420 1533 Close 1706	Prev 1883	ed by C	2 46 S.	<u></u>		Jan Mor May

+1.0 378.0 388.0 1,885 1,444 +3.0 342.5 338.5 783 15,424 +2.1 332.0 328.2 565 5,127 +0.9 322.9 319.8 723 3,183 +0.2 292.8 290.6 203 2,615 -1.5 285.3 284.0 56 1,110 SUGAR '11' CSCE (112,000lbs; cents/fbs) 10.83 +0.09 10.94 10.88 6.805 76.750 19.11 +0.07 10.17 10.03 88.40 +1.75 88.84 88.10 3.457 12.340 86.85 +1.00 87.16 85.00 3.670 20.177 86.95 +1.43 67.10 85.15 567 8.575 88.80 +1.35 87.10 85.15 222 6.824 80.25 +9.02 80.25 73.80 42 1,443 77.10 -0.15 77.30 76.80 89 7.172 DRANGE JUICE NYCE (15,000lbs; cents/lbs) 122.85 +1.45 123.15 120.50 1,604 18,838 125.50 +1.60 125.60 123.10 1,194 4,895 127.85 +1.60 127.00 125.75 114 1,695 130.10 +1.80 - 18 655 130.10 +1.80 - 18 655 130.25 +1.60 131.08 131.00 92 219 132.35 +1.60 131.08 131.00 92 219 25 880 restrictions 28/SU raw in small resultany operation (round); 1994 crop sold out; new crop 3,500 CFR/FOT MEP, 28/28 3,600 CFR/FOT MEP, 26/28 3,600 CFR/FOT MEP, 56/28 3,600 CFR/FOT MEP, 56/28 5,700 at 3,500 FAS, weak Crop iligares higher than expected, but shipments problems remain. Us wainets (smelled) light halves and places, 1925 crop at 3,850 FOB, very firm, Indian casheus, caw, W220, at 6,220 FOT Rottardam, sporpices firming on short stocks. Turkish hazahnut kemala, 13/15 standard 1s, 1985 crop at 3,150 CAF MEP, talling, Turkish aprilos, 1985 crop at 2,550 CFR MEP, special offer for spot. North Datota sunflower seeds, 1995 crop; 22/64 at 950 CFR MEP, 20/64 at 950; very difficult. ■ RELITERS (Base: 18/9/31=100) New 14 month ago 2171.4 2088.5 ■ CRS Futures (Base: 1967=100) Nov 14 242.02 Nov 13 month ago year ago 242.82 ■ GSCI Spot (Base: 1970-100)

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Ç	OA LCE	(E/ton	ne)				H LIV	E CATT	LE CMI	E (40,00	Olbs; c	ants/libe)
	Sett	Dey's change	is.d.		liter	Open			Day's change		100	Mai	Open
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	968					13,700 34,661	Dec	68.100 67.600 63.850 61.950 62.875	-0.225	68 50VI	BB.490	2,000	20,004
	984			960		14.372	Are	67 600	-0.175	67 R25	B7 475	1 398	12 309
	1001					4,989	- Series	63.850	-0.415	64 MM	63 725	44R	5 16R
	1022					26,167	Ann	R1 950	-n 050	R2.100	61 900	174	2 124
	1035					6,368	Charle .	E2 875	-0 UED	62 975	62 RSB	152	1 952
		10	_	1000		117,874	Tetal	u	-4.00	02010	UL-000	10.064	70,308
o	OA CSC	Œ (10 t	onnes:	\$/tonne				E HOGS					
_	1364		_			6,431	Dec		+0.025	_	_	_	986
	1387					42,842	Feb		-0.075				
	1403					6,758	Apr		-0.450				
	1423			1419		3.553	in the second	53 150	-0.325	53,500	53.050	398	3,792
	1444					9,400	14		-0,325				
	1469					7,091	Aug		-0.400				1,042
					15,255	78,954	Total						31,135
C	OA (100	(OC)	R'a/ton	na)			R PO	RK BEL	LIES CI	ME (40,	000tbe;	centa/t	bs)
			Price		Prov	day	Feb		-0.775				
_			958.1	3	9	17.89	Mer May	57.600	-0.675	50.175	57.300	151	737
							No.	58.625	-0.400	59,100	58.500	28	383
Ħ	FEE LC	E (S/ton	nei				, ind	59,700	-0.575	59.950	59.300	23	494
-						4 400	Ang	58.700 57.200	-0,500	57.500	57.200	33	124
	2503					1,465	Total					1,530	6,533
	2305 2216		2320 2230			14,588							
	2143		2140	2195 2125		7,377							
	2083			2070	79	3,732 1,064	1.04	IDON	ı TD	ADE		DTIC	NIC
	2038					314							
		-24	2010	2010		28.550	Strike	price \$	TDMN 0	0	indis —	—Р	ris
Ħ	#E 'C'	CSCE	37,500	be: con			E ALL	MINITUR	A				
		+1.30					(99.7%	LME		Dec			Feb
		+1.00					1600			_ 56		12	40
		+2.15									57	66	86
		+2.75									26	-	154
	118.10	+2.85	116.75	118.66			E CO	PER		_		_	4.
	117,10	+2.85	_	-	1	248		A) LIME					Feb
					11,254	23,820		**********				25	130
Ħ		O) (US	cents/or										•
		,,,,,,,,,,		_	_							155	-
_			Price		Prov.		■ CO1	FFEE LC	Æ	Jan	Mar		
						23.33	1600			705		•	5
	mage		_ 121.00	٠.	12	21.13	1650 _			655		-	
,		JM RAV	N RING	ARICE	france	e/Brest							15
								COA LC		Dec			Mar
	13.25		_	_								:	10 10
	10.90			-			935			10	87		24
	10.72 10.72		_		Ξ		-	ENT CR		_	_	_	Jan
	14.72	-	_	-		-							
_	T 0110	AR LCE	/EAn-	_	-	-	1550			_ 105	99 61		20
-	_	_	•		_						40	34	38 65
	378.0	+1.5	379.9	366.0	1,685	1,444	1030 _				~	-	QL.
	2/25	-30	249 5	228 5	787	15 494							

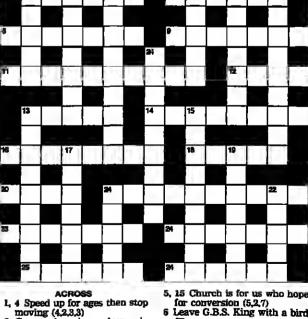
LONDON SPOT MARKETS CRUDE OIL FOB (per barrel/Jan) +0.105 +0.07 +0.11 +0.08 \$15.45-6.40w \$18.63-6.67 \$18.45-6.46 \$17.62-7.69w Brent Blend (dated Brent Blend (Jan) W.T.I. (1pm est) \$187-199 Jet tuel \$175-176 \$1\$1-162 0171) 359 8792 ■ OTHER

Gold (per troy oz) Silver (per troy oz) Pletinum (per troy oz.) Palledium (per troy oz.) \$134,40 125.0c 41.75c 15.79m 299.5c Tin (New York)
Tin (New York)
Cattle (live weight)
Sheep (live weight)
Pigs (live weight) \$301.1 \$378.0 £126.0 £105.5w Barley (Eng. feed) Meize (US No3 Yello Wheet (US Dark Nor Unq Coconut Oil (Phil)§ Paim Oil (Meiny.)§ Gopra (Phil)§ Soyabeana (US) \$755.0y -10.0

JOTTER PAD

CROSSWORD

No.8,920 Set by GRIFFIN



1, 4 Speed up for ages then stop 8 Comprehensive law involved (7) 9 One niggling about American hot? (5-4.5)

10 I'd led astray many people without using intermediaries

fellow with pimple (7)

11 Arsonist will if celebrity volunteers with keepness (5,1,4) 12 Swear Vera's mad! (4) 13 Took a picture of hidden animal (5)

month (8)

18 Having set asids noe less, flourished (5)

20 Spring right into box (4)

21 This beath 1 reserve for UK inhabitants (3,7)

23 Didn't sit near but was prepared (5,2)

pared (5.2)
24 Heavenly creatures giving

cold man massages! (7)
25, 26 Landlord Frank requires
ruler and paper-knife (6,6)
DOWN
1. 12 down Shot for writing
about chief lacking funds
(5,2,7)
2. Shore

Shops crooked pair for grab-

3, 21 down People lie bere

patiently (9,5)

15 See 5 17 Left behind look for aero-14 Turns to let nne in (8)

16 Figure yoo'll need fish after a

drome (7)

19 Old soldier in vehicle dam-Solution 8.919

(7) 7, 22 Definitely not drunk very

13 See I down



INTERNATIONAL CAPITAL MARKETS

French deficit news lifts European sector | Mercury One-2-One sets

By Richard Lapper in London and Lisa Bransten in New York

Positive news on the French fiscal deficit combined with fundamentals pointing to lower growth and waning inflationary pressure buoved the European bond markets yesterday.

The German and UK markets rose strongly in morning trading before losing some ground in the afternoon due to a combination of profit-taking and disappointing inflation statistics in the US.

The dollar stabilised, but its weakness in Asia overnight contributed to underperformance by high-yielding bonds. with the 10-year yield spread of Italian bonds over German bunds widening by 3 basis points to 535 points.

■ French bonds responded positively to news of the govern-

ment's plans to reduce its social security deficit. Prime Minister Alain Juppé said the deficit would fall to FFr17bn in 1996. On Matif the 10-year December future gained more than half a point, while the three-month Pibor contract closed up 0.10 at 94.17, continuing its strong recent advance.

■ German bond prices rose strongly after a cut in the securities repurchase rate fanned expectations of a reduction in interest rates. The repo rate cut of two basis points was in line with expectations, taking it down to 3.98 per cent.

Mr Graham McDevitt bond strategist with Banque Pari-bas, said the change in the headline number from 'four' to 'three' had an important "psy-chological impact" on the mar-

There are hopes in some

quarters that the discount rate could be reduced when the Bundesbank's council meets today. "While the market call is for no change in official rates, we are definitely entering the 'amber alert zone' now for an early German rate cut." said Mr David Brown at Bear

GOVERNMENT **BONDS**

Stearns. "We tend to put the chances of a 25 basis point dis-count rate cut at 50:50 tomorrow, as all the pre-conditions are pointing to lower rates."

Fresh economic data in the UK provided further evidence that the economy is slowing and helped gilts continue their rally.

On Liffe, the December long gilt contract surged to a high

the afternoon, partially as a result of sterling weakness. It closed at 107m, down &.

■ US Treasury prices were flat in early afternoon trading as traders took to the sidelines amid mixed economic news and uncertainty regarding the passage of a budget package.

Near midday, the benchmark 30-year Treasury was unchanged at 107% to yield 6.283 per cent and the two-year note was also unchanged at. 1004, yielding 5.453 per cent. In Washington, skirmishing

continued between Congress and the administration over a deficit-reducing hudget package, although the Treasury Department took action that allowed it to make yesterday's \$25bn interest payment. Mr Robert Rubin, Treasury Secretary, said his actions to

of 108%, before falling back in circumvent the debt ceiling should allow the Treasury to continue making payments until at least late December.

The Federal Reserve's Open Market Committee was meeting yesterday but few on Wall Street believed there would be a rate cut before Congress and the president agreed to a deficit-cutting package.

Economic data released yesterday supported the belief that the economy has slowed, with industrial production off 0.3 per cent in October after September's 0.1 per cent increase. Capacity utilisation slipped to 83.6 in October from

84.1 in September. However, the Consumer Price Index rose 0.3 per cent in October - both with and without the volatile food and energy components - slightly more than the mean forecast of

cellular phone benchmark

By Alian Cane and Antonia Sharpe

Mercury One-2-One, the mobile phone company owned by Cable & Wireless and US West. has completed a £600m syndi-cated loan which it will use to pay back debt and continue the development of its network. It is believed to be the first UK non-recourse financing for a cellular phone group to be successfully completed. Hutch-ison Telecom which operates the Orange cellular network, which is technically similar to

Ona-2-One, announced recently that it is raising £1.2bn in bank financing. Mr Richard Goswell, managing director of One-2-One, said it was a substantial vote of confidence in the mobile phone business and a benchmark for future lending to cel-

lular phone companies. The loan is a three-year revolving credit converting into a four-year term loan. Pricing has been set at 150 basts points over London interbank offered rate (Libor), ratcheting down to 50 basis points over Libor if pre-set debt to cashflow ratios are achieved. The loan, which was 30 per cent oversubscribed, was arranged

by Paribas and HSBC. Most of the cash will be used to pay back the equipment manufacturers, Ericsson and Nortel, which helped fund the launch.

SYNDICATED LOANS

The remainder will be used to complete expansion of the network to 90 per cent of total population coverage within two years. Mr Goswell said he expected the company to generate sufficient cash by then to complete the network without recourse to further debt finance.

• Gaz de France, the state gas utility, has increased the size of its seven-year revolving credit facility to \$450m from the original \$400m after more than \$600m was raised in gen-

Despite the increase, all banks will have their participations scaled back. The facility is now closed and will be signed in mid-December. • Export Credit Bank of Tur2 44427 at. **184**

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D DEMPATIVES

DANGE CROSS MATER

MOON MONEY MATER

key is seeking to raise \$150m by way of a two-year syndicated loan guaranteed by the republic. The loan, which car-ries a margin of 125 basis points over Libor, has been fully underwritten by ABN Amro Citibank, Dal-Ichi Kan-gyo, Sabanci, Sakura and Sanwa. Participation fees range up to 80 basis points.

 ANZ has arranged what it says is the first export-finance deal in Vietnam from the US since the normalisation of diplomatic relations between the two countries. The \$12m seven-year package

will enable the state-owned Vietnam Waterway Construction Corporation to purchase two dredges and spare parts from Ellicott Machine Corporation International of Baltimore. The loan was not widely syndicated and pricing was not dis-

Colombia to extend investor base in D-Marks

By Conner Middelmann

Bond investors are turning their attention to the forthcoming D-Mark debut of the Republic of Colombia, a DM200m five-

year bond issue. After issuing Yankee and Samurai bonds and one dollar eurobond, Colombia has cbosen to tap the D-Mark sector to

INTERNATIONAL BONDS

further extend its investor base, Mr Clemente del Valle, director-general of public credit at the Colombian Ministry of Finance, said yesterday. He said Colombia plans to raise between \$900m and \$900m on the international debt mar-

Although Colombia's President Ernesto Samper remains under investigation over allegations that he knowingly accepted contributions from the Cali drugs cartel during

WORLD BOND PRICES

last year's elections. Mr del Valle said institutional investors were more likely to focus on Colombia's positive economic fundamentals and its investment-grade credit rating. The bonds are expected to be

launched early next week, and dealers are talking of a spread of between 160 and 170 basis points over the interpolated yield curve. Deutsche Morgan Grenfell and SBC Warburg are SNCF, the French national

railway, yesterday issued \$250m of three-year bonds via BNP Capital Markets, CS First Boston and DKB. Yielding five basis points over Treasuries, some dealers felt the deal was tightly priced. However, the lead managers

reported good demand from keen on short-dated dollar bonds - especially ahead of some \$10bn of dollar bond redemptions in December. In the nascent Czech koruna sector, Deutsche Bank Finance

Borrower US DOLLARS	Amount m.	Coupon %	Price	Meturity	Fees %	Spread	Book runner
SNCF World Bank*	250 50	5.60 5.00#	99.515R 97.894	Dec.1998 Nov.2000	0.1875R <i>undied.</i>	+5(WL 3yr)	BNP /CSFB /CKB Intil. Kokusai Europe
D-MARKS Inter-American Deviment Benk CNCP/NKBK Intl. Finance	140	5.00 5.75	98.91 102.10	Dec-5000	0.25 2.50	:	Nikko Bank (Deutschland SGZ Bank
YEN International Pinence Corp.* Bladex(b)*	155n 10bn	(a) 5.00#	100.40 100.00	Nov.2025 Dec.1996	0.40 1.00	:	DKB International Nikko Europe
SWISS FRANCS City of Viernal() International Endesat	220 150	3.50 (c)	102.50 100.50	Jan.2002 Jan.2000	2,25 undist.	:	Von Ernst/IBJ/Menft/S9C Credit Suisse
FRENCH FRANCS Compagnie Bancairet	1bn	(4)	100.025R	Jun. 1997	0.125R		CCF
CZECH KORUNA Deutsche Bank Finence	1bn	10.50	100.90	Dec.1998	1.50		Deutsche Morgan Grenfei

DITERNATIONAL ROND ROLLE

raised Kčlbn of 10.5 per cent three-year bonds via DMG, targeted mainly at German retail keen on the substantial yield

pick-up over bunds. Tuesday's \$250m 10-year issue for Telstra ran into trouble amid media reports of financial crisis at the state-

owned Australian telecommunications company, based on a leaked internal memo. Lead manager J. P. Morgan offered to buy bonds from investors and members in the

syndicate group at cost,

although it did not report

"J. P. Morgan acted very honourably - this sort of thing is a syndicate manager's night-mare," said a dealer at another bank. Telstra claimed the news reports had "sensationalised" what was a normal budgetary review to ensure that 1995-96

122.18 146.41 163.05 186.03 142.13

184,52 187,57

+0.03 +0.09 +0.17 +0.45 +0.09

122.13 146.28 162.77 185.19 142.00

Housing finance for New World

By Simon Holberton in Hong Kong

New World Development, the Hong Kong property, hotels and infrastructure conglomerate, is expected to announce tomorrow that it has raised more than US\$200m from pri-

vate investors for its mass housing projects in China. The recapitalisation of NW China Homeowner Development, which has projects in four large Chinese cities, completes the largest part of the

group's restructuring. Since the beginning of last month, New World has raised US\$260m from the listing in New York of Renaissance Hotel Group, and US\$300m

9.72 5 yrs

11.73 15 yrs 12.13 20 yrs 13.47 |med.†

Up to 5 yes Over 5 yes

8.37 4.45

from the listing in Hong Kong of New World Infrastructure, the company which holds New World's interests in Hong Kong and Chinese ports, roads, bridges and power stations. In the final leg of the reor-

ganisation, the company plans to approach US credit markets to raise about \$300m. Morgan Stanley is advising it on the capital raising, while credit ratings have been sought from Moody's and Standard & Poors. New World has raised

US\$215m from mainly Hong Kong investors, but the Singapore government and Bank of China group have participated as well. The company will retain a 57 per cent interest in NW China Homeowner.

Nov 15 Nov 14 Yr. ago

3.11

3.84

3.12

struct mass housing in Wuhan, Shenyang, Huizhou, and Tian jin. The project in Wuhan -the most advanced - comprises 4m sq m of housing, retail and commercial space and has a six to seven year construction life, The development will house up to 57,000 families.

The company claims the development will provide investors with an after-tax return of 25 per cent. It said the project served a social function in Wuhan, so many local taxes and imposts had been waived, thereby improving financial returns. Furthermore, the company has rights to develop retail and commercial space in the estate.

--- Low coupon yield --- Medium coupon yield --- High coupon yield ---Nov 15 Nov 14 Yr, ago Nov 15 Nov 14 Yr, ago Nov 15 Nov 14 Yr, ago

7.31 B.01

7.31

8.52 8.56 8.56

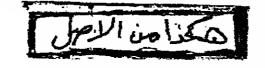
2.05 3.44

Nov 15 Nov 14 Yr, ago

2.04 2.67

BENCHMARK GOVERNMENT BONDS BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100% FT-ACTUARIES FIXED INTEREST INDICES Price Indices UK GHS CALLS 07/05 92.8000 00695 100,7000 +0.180 03205 97.9600 +0.260 12/05 108.0400 +0.050 04/02 12/04 98.4000 +0.300 04/02 105.5250 +0.260 10/05 105.3200 +0.600 10/05 107.300 +0.140 10/04 90.0000 +0.250 09/05 95.2000 +0.200 1 0355 - 861 865 +0.180 877 8.86 +0.280 6.79 6.83 +0.050 7.59 7.59 +0.300 7.59 7.62 +0.280 6.99 7.07 +0.400 6.99 7.07 +0.400 6.90 6.98 +0.250 7.85 7.88 +0.200 11.32† 11.32 +0.355 1.41 1.52 0.85 0.46 0.32 0.82 1,07 1,38 1,74 0.85 Un to 5 years (22) Italy IN NOTIONAL ITALIAN GOVT, BOND (BTP) FUTURES 6 Up to 5 years (1) 7 Over 5 years (11) 120.3580 113.4230 104.8500 105.7600 95.8000 80.6840 103-11 204-26 108-18 103-30 107-27 103.18 103.50 102.85 103.11 +0.15 103.58 103.97 +0.18 103.14 102.85 ■ ITALIAN GOVT, BOND (BTP) FUTURES OPTIONS (LIFFE) Line200m 100ths of 1005 MOTIONAL SPANISH BOND FUTURES (MEFF) Dec Mar UK ■ NOTIONAL UK GILT FUTURIES (LIFFE)* £50,000 32nds of 100% Open Sett price Change High 107-24 107-31 +0-05 108-12 107-20 107-11 +0-05 107-18 Jan Reb 1-20 1-46 0-53 1-15 0-31 0-55 Dec 0-14 0-36 1-74 Jan 0-62 1-31 2-09 Mair 2-00 1-31 1-05 BOND FUTURES AND OPTIONS ECU BOND FUTURES (MATTE) ECU100,000 +0.48 +0.46 +0.50 Open Setz price Change High 88.50 88.74 +0.22 88.74 LONG TERM FRENCH BOND OPTIONS (MATIF) Jun. ■ US TREASURY BOND FUTURES (CBT) \$100,000 32nds of 100% Low Est. vol Open Int. 110125 203021 3732 12892 122.25 120.92 97.45 96.91 UK GILTS PRICES | Tream 12 lane 2003-6 | 9.80 | 7.80 | 17/13/14 | | Tream 8 lane 2003-6 | 9.80 | 7.80 | 17/13/14 | | Table 2006+1 | 7.83 | 7.86 | 19/13/14 | | Table 2003-6 | 9.84 | 7.85 | 19/13/14 | | Tream 11 lane 2003-7 | 9.84 | 7.80 | 19/13/14 | | Tream 8 lane 2007-1 | 8.14 | 7.90 | 104-13 | | Tream 9 lane 2008-8 | 8.29 | 7.80 | 19/13/14 | | Tream 9 lane 2008-1 | 7.90 | 7.90 | 100-13/14 | | Tream 9 lane 2008-1 | 7.90 | 7.90 | 100-13/14 | | Tream 9 lane 2008-1 | 7.90 | 7.90 | 100-13/14 | | Tream 9 lane 2008-1 | 7.90 | 7.90 | 100-13/14 | | Tream 9 lane 2008-1 | 7.90 | 7.90 | 100-13/14 | | Tream 9 lane 2008-1 | 7.90 | 7.90 | 100-13/14 | | Tream 9 lane 2008-1 | 7.90 | 7.90 | 100-13/14 | | Tream 9 lane 2008-1 | 7.90 | 7.90 | 100-13/14 | | Tream 9 lane 2008-1 | 7.90 | 7.90 | 100-13/14 | | Tream 9 lane 2008-1 | 7.90 | 7.90 | 100-13/14 | | Tream 9 lane 2008-1 | 7.90 | 7.90 | 100-13/14 | | Tream 9 lane 2008-1 | 7.90 | 7.90 | 100-13/14 | | Tream 9 lane 2008-1 | 7.90 | 7.90 | 100-13/14 | | Tream 9 lane 2008-1 | 7.90 | 7.90 | 100-13/14 | | Tream 9 lane 2008-1 | 7.90 | 7.90 | 100-13/14 | | Tream 9 lane 2008-1 | 7.90 | 7.90 | 100-13/14 | | Tream 9 lane 2008-1 | 7.90 | 7.90 | 100-13/14 | | Tream 9 lane 2008-1 | 7.90 | 7.90 | 100-13/14 | | Tream 9 lane 2008-1 | 7.90 | 7.90 | 100-13/14 | | Tream 9 lane 2008-1 | 7.90 | 7.90 | 100-13/14 | | Tream 9 lane 2008-1 | 7.90 | 7.90 | 100-13/14 | | Tream 9 lane 2008-1 | 7.90 | 7.90 | 100-13/14 | | Tream 9 lane 2008-1 | 7.90 | 7.90 | 100-13/14 | | Tream 9 lane 2008-1 | 7.90 | 7.90 | 100-13/14 | | Tream 9 lane 2008-1 | 7.90 | 7.90 | 100-13/14 | | Tream 9 lane 2008-1 | 7.90 | 7.90 | 100-13/14 | | Tream 9 lane 2008-1 | 7.90 | 7.90 | 100-13/14 | | Tream 9 lane 2008-1 | 7.90 | 7.90 | 100-13/14 | | Tream 9 lane 2008-1 | 7.90 | 7.90 | 100-13/14 | | Tream 9 lane 2008-1 | 7.90 | 7.90 | 100-13/14 | | Tream 9 lane 2008-1 | 7.90 | 7.90 | 100-13/14 | | Tream 9 lane 2008-1 | 7.90 | 7.90 | 100-13/14 | | Tream 9 lane 2008-1 | 7.90 | 7.90 | 100-13/14 | | Tream 9 lane 2008-1 | 7.90 | 7.90 | 100-13/14 | | Tream 9 lane 20 7.37 8.00 84\2st 8.28 8.01 108\2 8.29 8.01 108\2 8.22 7.59 78\2 8.01 6.00 89\2 7.98 8.01 97\2 7.99 7.98 100\2\0 8.18 8.03 107\2 8.76 8.08 138\2\0 8.76 8.08 138\2\0 +1₄ 868 792 +1₄ 1113 1013 +3₄ 1113 1023 +3₅ 805 724 +3₅ 1024 893 +1₄ 893 +3₅ 1023 893 +3₅ 1023 1093 +3₅ 1033 1073 +3₅ 1233 1273 Other Fixed Interest 6.03 5.79 6.23 8.00 6.00 - 48% - 43% - 60% - 36% - 314

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MARKETS REPORT

olione benchmat Politics and rumours drive sterling to new low

By Philip Gawith

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The heady brew of a soggy dollar, political rumour, the upcoming budget end weak economic data was yesterday sufficient to drive the pound to a new low on a trade-weighted

The pound has been dragged lower recently by the weaker dollar, but the catalyst for the further fall was the release of economic data which left traders thinking that the UK economy may, in the weeks ahead, face both a stimulatory budget and a cut in interest rates.

Aggravating matters was a rumour, later shown to be wrong, that another Tory MP would be defecting to the Labour party, further crimping the government's already small majority.

Sterling hit a new record low of 82.5 on 6 trade weighted basis. The previous low of 82.7 was reached on May 9. It is also came within a whisker of its historic low egainst the

D-Mark, finishing in London at DM2.1847, from DM2.2123. The historic low of DM2.1755 was also reached on May 9. Against the dollar it finished at \$1.5579. from \$1.564.
The dollar had lost ground

overnight during Asian trad-ing, but it was fairly stable in Europe, finishing at DM1.4024. from DM1.4145, and at Y101.035, from Y101.54. The continued budget impasse has weighed down on the currency, but the diminished likelihood of a debt default appeared to curb any instinct to sell the

dollar aggressively. In Europe, the French franc finished marginally weaker against the D-Mark after the government announced it was imposing a new 0.5 per cent tax on most income to repay wel-

--- Prev. close --1.5585 1.5583 1.5585 1.5450

■ Sterling's descent to a historic low has been more by default than through aggressive selling. While traders reported that some US hedge funds had been selling the pound in recent days, the main explanation for why it languishes at current levels lies in the continued inability of the dollar to rally.

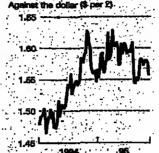
said that "the weakness of ster-ling against the D-Mark is in no small part due to the schoolyard games the US euthorities are playing over the budget."
The pound will remain vulrable in the run-up to the budget on November 28, but trade has so far been calm. Indeed, with the dollar having

Mr Kit Juckes, currency

strategist at NatWest Markets,

been effectively grid-locked for the past two months, foreign exchange volumes have been fairly low, and sterling's fall needs to be seen against this backdrop of fairly thin trade.

1.65



the jargon of the market, oterling has been the victim not so much of heavy selling, as an absence of buying. Mr Chris Furness, currency strategist at the financial markets consultancy IDEA in Lon-

don, said: "It is certainly not panic levels at this stage, but it will be if it breaks down much

Long-term investors remain.

DOLLAR SPOT FORWAR

for the most part on the side-lines. The difference between sterling's current performance and earlier sterling "crises" can be seen in the interest rate markets. A sterling crisis is normally accompanied by market expectations of interest rates rising to defend the

At the moment, however, the short sterling interest rate futures markets is actually pricing in a cut in interest rates, with three month money expected to trade around 6.37 per cent in June next year, compared to the current base

rate of 6.75 per cent. Futures contracts rallied initially on the expectation of a cut in interest rates, but these gains were progressively given back over the day, with sterling's weakness seen as a coun-

Mr Juckes predicted that if tax cuts were financed through a credible cut in government

seen to be fiscally neutral, ster-

ling's fall would probably appear exaggerated.
Mr Ian Harnett, UK group chief economist at Societe Generale in London, said: "The chancellor can provide a fiscal interest rates. He is probably not in a position to do both." He said markets were con-

cerned that an over-stimula-tion of the economy would cause a deterioration in the trade deficit. "The currency market is telling us that interest rates have to be on hold."

■ The Bank of England provided £862m assistance towards clearing a £900m money market shortage. Three month LIBOR was unchanged

E OTH	IR CURRENCIE	\$
Nov 15	3	
Czeck Rp	40.6295 - 40.6711	26.0880 - 26.0980
Hongary	205.686 - 205.866	132.070 - 132.120
	4675.20 - 4672.20	3000.00 - 3000.00
Kernell,	0.4684 - 0.4671	0.2995 - 0.2997
Poland	3.8343 - 3.8399	2.4620 · 2.4640
Russia.	7073.58 - 7072.15	4539.00 - 4541.00
UAE	5.7196 · 5.7237	3.6725 · 3.5726

5.46 5.48 5.4 5% 5% 3.4 3.1 US Dollar CDs week ago ECU Linked De week ago neutic Money Rates, USS COs, ECU & SDR Linked **FURO CURRENCY INTEREST RATES** 7 days notice Nov 15 Beiglan Franc Danieh Krone D-Merk Dutch Guilder Franch Franc Portuguese Esc. Spenish Peseta Sterling Swips Franc Can, Doller 41: - 35: 63: - 54: 4 - 54: 4 - 55: 61: - 55: 61: - 55: 61: - 55: 61: - 10: 61: - 15: 61: 61, 92, 93, 14, 511, 511, 10,4 94.10 94.49 94.86 +0.09 +0.05 +0.05 93.90 94.35 94.60 52,416 8,506 4,328 E MONTH EUROMARK FUTURES (LIFTE)* DM1m points of 100% Est, vol Open int. 14362 96.27 96.28 96.15 17197 13800 11128 96.30 +0.03 (LIFFE) Est, vol Open Int. 89,49 89,79 89,96 89.35 89.70 6942 2251 89.91 89.89 89.95 90.03 80.05 MONTH EURO SWASS FRANC FUTUR (UFFE) SF1= point 98.07 98.28 98.28 96.27 98.19 1191 96.13 A THREE MONTH ECU FUTURES (LIFFE) Equim p nta of 100% 94.49 94.66 94.70 94.59 M EUROLINA OPTIONS (LIFFE) L1000m points of 100% 0.89 0.27 0.41 0.51

WORLD INTEREST RATE

MONEY RATES

Belglum week ago France week ago Germany

week ago Japan Japan

S LIBOR FT London

Europe Austria Belgium Denmari Finland France German Greece ireland italy Luxemit -0.1931 884 - 829 -0.5981 887 - 398 -0.1102 715 - 824 -0.0759 322 - 473 -0.0874 417 - 497 -0.0276 836 - 858 15.8186 15.3529 45.2310 44.8480 8.5358 8.4860 6.5900 6.5270 7.6055 7.5322 2.2098 2.1821 44,8083 8,4694 6,5354 7,5423 2,1799 44.8143 8.4528 6.5273 7.5546 2.1702 2.7 1.1 0.9 43.8293 8.3903 2.4 1.0 SUFFF Americas Argentina Brazil Canada Mexico (Nei USA Pecific/Middle South Korea

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K.A	8.4770	-0.1102		598	45.2310 44 8.5358 8		44.8093	2.8	44.6143		43.8293		109.9	Belgium	(BFr)	28.8300	-0.27 100 - 500		28,780	1,7	28.71	1.7	28.41	1.5	109.1	LANGEE	MONTH P	BOK FUT	Uta
30	6.5398	-0.0759				3.4660 3.5270	8,4694 6,5354	1.1	6.4528 6.5273	1,1	8.3903	1.0	110.3	Denmark	(DKr)	5.4413	-0.0492 395 - 430		5.4421	-02	5.4378	0.9	5.4473	-0.1	109.3		Open	Sett price	Ch
Fri	7.5457	-0.0874				.5322	7.5423	0.5	7.5546	-0.5	7.5513	-0.1	88.8 111.0	Pinland	(F-144)	4,1973 4,8435	-0.0322 943 - 013 -0.037 425 - 445		4.1974	0.1	4,1963 4,8472	0.1 -0.3	4.1813	0.1 -0.3	87.8 110.2	Dec	93.96	94.10	+4
(MC	2.1847		898			2.1811	2.1709	2.7	2.1702	2.7	2.129	-0.1 2.5	112.7	France Germany	(FFr)		-0.0121 021 - 026	4.8790 4.8330 1.4134 1.8978	1,4004	-0.3 1.7	1.3962	1.8	1.3808	1.5	111.5	Mar	94.36	94.49	+6
Dri	361.854		644 .		364.198 36		2-1/05	2.7	2.1742		2 128	-	86.9	Greece	(Dr)	232,270	-1.395 210 - 390	233,480 230,870	233,995	-8.9	237.195	-8.5	250.97	-7.B	66.3	Jun	94.61	94.66	+4
(21)	0.9709	-0.003				19894	0.9701	1.0	0.9688	0.0	0.9658	0.6	96.7	Ireland	653		-0.0012 037 - 057		1.6049	-0.1	1.605	-0.1	1.6115	-0.4	-				
(L)	2479.10	-14.07	720 -	100	2496.21 24		2486.35	-3.5	2501.25	-3.6	256B.4	-3.6	69.8	Italy	in an		-2.79 060 - 202	1594.40 1588.75	1598.06	-5.1	1810.11	-4.7	1667.31	-4.B	69.7				
.Fr)	44.8143	-0.5981	687 -	588	45,3910 44	.8480	44.8093	2.8	44.6143	2.7	43,8293	2.4	109.9	Luxembourg	(LÉT)	28,8300	-0.27 100 - 500	28,9850 28,7750		1.7	28.71	1.7	28.41	1.5	109.1	THREE	MONTH E	UROMAN	K PU
ឤ	2.4483	-0.0334			2.4874 2	.4436	2.4406	2.8	2.4294	2.8	2.3837	2.8	110.0	Netherlands	(FI)	1.5703	-0.0152 700 - 705	1,5788 1,5653	1,5676	2.0	1,5826	2.0	1.5428	1,9	109.0		Open	Sett price	Chi
Kr)	8.6434	-0.1316			9.7428 9	.8356	9.631	1.5	9.6091	1,4	9,5336	. 1.1	99.2	Norway	(NKr)	8.1900	-0.06 875 - 925	6.2375 6.1725	6.1863	0.7	6.19	0.6	6.17	0.9	98.1	Dec	96.07	96.09	+0
Es)	229.276		125 -		291.515 22	8.308	229.81\$	-2.8	231.036	-8.1		-	95.8	Portugat	(Es)	147,170	-1.48 120 · 220	148.550 148.510	147,635	-3.8	148.645	-4.0	153.27	-4.1	96.5	Mar	96.27	96.30	+0
Ta)	188.062		947		189.713 18		188.562	-3.2	189.502	-3.1	193.902	-3.1	81.7	Spain	(Pts)	120.715	-1.03 680 - 750	121,580 120.590	121.095	-3.8	121.865	-3.6	125.36	-8.0	81.2	Jun	96.28	96.30	+0
Kn	10.3033	-0.1207			10.4088 10		10.3055	-0:3	10.3101	-0.3	10.3334	-0.3	96.1	Sweden	(SKr)	6.8136	-0.0514 098 - 173	6.6658 8.6042	6.6311	-3.2	6.8676	-3.8	6,8361	-3.4	96.1	Sep	96.15	96.20	+0
17	1.7675	-0.0148	661	688	1.7788 1	,7622	1.7604	4.B	1.7488	4,3	1,6956	4.1	116,5	Switzerland	(SFr)	1.1345	-0.0051 340 - 350	1.1415 1.1290	1.1309	3.8	1.1248	3.4	1.097	3.3	115.9	- THREE	MONTH F	ABILIORIE	HUTT
Ø													82.6	UK	(E)	1,5579	-0.0061 574 - 584	1.5875 1.5567	1.5567	0.9	1,5546	0.9	1.5438	0.9	82.5			-	
-	1.1946	-0.0122	937 -	854	1,2035 1,	.1925	1,1936	1.0	1.1819	1.0	1.1831	1,0	-	Ecu	-	1,3042	+0.0082 037 - 047	1,3075 1-3000	1.3048	-0.4	1,3053	-0.3	1.3076	-0.3	-		Open	Sett price	Ch
-	I'hadad					•	•		-	-	-	•	•	SDAT	-	0.66973			-	-		-	-	•	-	Dec	89.35	89.45	+0
and.	1.5577	-0.0061	571 -	502	1.5673 1.	.5587			_					Americas	(Caral)	0.9999	000 000	1,0000 0,9998								Mer	89.70	89.76	+0
261	1.4991	-0.0067				.4960		-			-	-		Argentina Brazil	(Peso) (PS)	0.9623	-0.0005 620 - 625	1,0000 0,9998 0,9630 0,9620	-	•	•		•	-	-	Jun	89.94	88.95	+0
Si	2.1111	-0.0068				.1082	2.1122	-0.6	2,1142	-0.6	2113	-0.3	84.3	Canada	(CS)	1.3551	+0.0009 548 - 563	1.3590 1.3527	1.3567	-1.5	1.3598	-1.4	1.3721	-1.3	83.3	Sep	90.03	90.03	+0
SOI	12,3075	-0,4382			12,5483 12		-1124	-0.0	E41176	-0.0	2110	~	04.5		r Peso)	7.9000	-0.25 800 - 400	7.9500 7.8500		-0.3	7.9055	-0.3	7.9103	-0.1	65.3	E THREE	MONTH E	URO SWIE	JS FR
Si	1.5578	-0.0061			1,5675 1.		1.5567	0.9	1,5548	0.9	1.5436	0.9	92.8	USA	83						-	-			94.1		Open	Sett price	Chi
	frice							***						Packte/Models	East/	Africa										Dec	96.07	98.07	
15)	2.1183	+0.0086	166 -	197	2,1219 2	1052	2,1196	-0.7	2,1225	-0.8	21372	-0.9	84.2	Austrelia	(AS)	1.3596	+0.0108 598 - 802	1.3613 1.3536	1.3614	-1.B	1.365	-1.8	1,3847	-1.B	85.8	Mar	98.30	98.28	-0
(3)	12.0481	-0.049	434 -	527	12,1230 12,	.0395	12,0448	0.3	12,0321	0.5	11,9985	0.4	-	Hong Kong	(1-8455)	7.7335	-0.0012 330 - 340	7.7340 7.7328	7.7351	-0.2	7.737	-0.2	7.7572	-0.8		Jun	96.29	98.28	-0
(S)	53.8333	-0.2342			54,3040 58.	7510		-		-				Inche	(Rs)	34,5550	-0.013 800 - 800	34,7000 34,5000	34.705	-5.2	35.01	-5.3	36.48	-5.3	-	Sep	98.21	96.13	-0
M)	4.6905	-0.0208				.6808		-		-	-	-	-	kreel	(Shk)	3.0108	-0.0016 083 - 133	3.0138 3.0016	-			-		-	•			CU FUTUR	
m	157 403	-1.406			158.300 157		156.543	6.6	154.748	6.7	147.703	6.2	141.6	Japan	m	101,035	-0.505 DOO - 070	101,590 100,700	100.54	5.9	99.62	5.6	95,745	5.2	141.7	- 11MALE		00,0101	
ısı	3.9454		433 -			.9431		-						Malaysia	(MS)	2.5325	-0.001 320 - 330	2.5372 2.5315	2.5325	0.0	2.5329	-D.1	2.5405	-0.3	•		Open	Sett price	Che
(3)	2.4051		030 -		2,4109 2		2.411	-3.0	2,4203	-2.5	2.4459	-1.7	89.9	New Zealand	(NZS)	1.5437	+0.0059 430 - 446	1.5464 1.5381	1.5478	-3.2	1,5553	-3.0	1.58	-24	-	Dec	B4.42	94.49	+0
50]	40.8404		863 -		41.0520 40.		-	-		•		•	•	Philippines	(Peso)	26.2150	+0.9025 900 - 400			-:					-	Mar	94.61	94.66	+0
SHI)	5.8429		409 -			8386		-	•		. •	•	•	Saudi Arable	(SRI)	3.7505	-0.0001 504 - 506	3.7506 3.7504		-0.2	3.7519	-0.1	3,7551	-0.1	-	Jun	D4.67	94.70	+0
200	2,1985 5,6697		970 -		2.2092 2			•	•	-	•	-	-	Singapore	(55)	1,4112 3,6383	-0.0015 107 - 117	1,4120 1,4084	1.4078	2.9	1,4015	28	1.3767	24	-	Sep	84.52	94.59	+0
(H)	1197.32	-0.0255	686 -		5.7000 5. 1205.09 118	.6661	•	-	•	-	•	-	-	South Africa South Korea	(F)	768.550	-0.0022 388 - 396 -1.2 500 - 600	3.6400 3.6355		-8.3 -4.7	3,7146 775,05	-8.3 -3.4	3.9458 783.55	-8.4		" LIFFE futur	es also trade	d on APT	
DE4	42,4388	-0.1865			42,7426 42		•	-		-	•		-	Taiwan	(CS(N)	27,2410	-0.013 380 - 440	27.2720 27.2370		-0.9	27,301	-0.9	183.55	-3.3		M EUROLI	RA OPTIC	MIS (LIFFE)	L100
Del Del	39,1345				39.3720 39.									Theiland	(Bt)	25.1200	-0.03 100 - 300			42	24.855	4.2	26.075	-40		Strike		CAL	1.00
-					how only the la		dardeni el		-		-		the market	† SDR rate per S			spreads in the Dotter So							-J.G	odered to dom	Price	Dec		
Trent	underest rate	B. Sterling	Index C	deputation)	t by the Benk THE WAWREUT	of Engle	and. Base a	POTEGO	1990 m 100), Index	rebesed 1/	275. Bd	Oter and				out rates. UK, treland 6 EX									8925 8950	0.37 0.23	0.8	13 17
																										8675	0.13		
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ŧΕ	S AND	DER	VAT	VES																_	_		_	_					-
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C	305S I	KATES	5							•							1/						1						_ 1
	BFT	OK.	FFr	_ D	M K	Ļ	. FI		MICH I	E	Pts	SKr	SFr	e cs	5	Y	Equ		7. I			11 (MNHUL	ILES INDU	STRIAL CO	SPORATIO	JN LIMITE	נו:

Europe Austria Belgium Denmari Finland France

	RATE	S AN	DER	VATIV	ES													
EXCHAN	_							-				_						
Nov 1		BFY	OK	FFr	DM	Æ	L	Ħ	MKr	Ee	Pts	\$Kr	SFr	2	CS	\$	ΥΥ	Б
elglum	BF		18.88	13.80	4.865 2.578	2162	5520 2924	5.446 2.865	21.47	510.6 270.5	418.8	22.93 12.15	3.937 2.086	2.227 1.160	4.701 2.490	3.469 1.838	350.5 185.7	2.0
enmark rance	(DK)		11.23	10	2.896	1.145 1.287	3285	3.241	12,78	303.9	249.3	13.65	2343	1.325	2.798	2.065	208.8	1.5
emany	(DM		3.880 8.730	3.454 7.771	1 2.250	0,444	1135 2553	1.110 2.519	4.413 9.931	104.9 236.1	88.09 193.7	4,714	0.809	1.030	0.966 2.174	0.713	72.04	0.5
eland ely	(RE		0.342	0.304	0.088	0.039	100.	0.099	0.389	9.250	7.588	0.415	0.071	0.040	0.085	0.063	6.349	O.
therlands	(FI (NK)		3.468 0.791	3.085 7.825	0,893 2,266	0.397	1013 2571	2.537	3.942	93.74 237.8	76.90 195.1	4.211 10.68	0.723 1.833	0.409 1.037	0.863 2.189	0.637 1.613	84,35 153,2	0. 1.
orway ortugel	(Es		3,697	3.297	0.963	0.423	1061	1.067	4.205	100.	82.03	4.492	0.771	0.436	0.821	0.679	68.64	a.
aln	(Pta		4.507 8.230	4.012 7.326	1.1 62 2.121	0.510	1313 2407	1.300 2.375	5.127 9.362	121.9 222.6	100. 182.6	5.476	0.940	0.582	1.122	0.828	83.68 152.8	0.
redon vitzeriend	SF		4.795	4.268	1.235	0.549	1402	1.383	5.454	129.7	108.4	5.826	1	0.568	1.194	0.881	89.03	0.
	Œ		8.477 4.019	7.548 3.575	2.185 1.035	0.971	2479 1174	2.446 1.159	9.643 4.568	229.8 108.6	188.1 89.10	10.30	1.768	0.474	2111	1.558 0.738	157.4 74.56	0.
nada	fCS (S		5,441	4.843	1,402	0.623	1591	1.570	6.189	147.2	120.7	6.011	1,135	0.642	1.355	1	101.0	0.
pan	O.		5.386 7.084	4,794 6,315	1.388 1.828	0.617	1575	1.554 2.047	6.126 8.069	145.7	119.5	8.544	1,123	0.635	1.341 1.767	0.990 1.304	100. 131.7	0.
u nesh Kramer, F	French Fran	37.58 sc, Norwe	yan Kroner,	and Swedi								2010	1,240	· ·	1.70	1.004		
D-MARK F											E YEN A	JTURES !	OMSMO YES	12.5 ps	Yen 190	•	•	
	Open	Latest	Change	High	Lo	w E	Est, voi	Open int.			Ореп	Latest	Change	_			_	Ope
c 0	0.7066	0.7140	+0.0055				16,475	51,802 3,953	Mar		0.9892 1.0060	0.9954	+0.007			3882 3080	15,077 487	81,4
. 0	17177	0.7167 0.7210	+0.0050	0.7186			185 415 -	539	'Jriu		1.0225	1.0225	+0.007			2225	1	31
SWISS PRA	ANC PUT	UPLES (I	MM) SFr 12	25,000 per	SFr				M 51	ERLUNC	FUTUR	es (MM)	262,500 p	er £				
	3785	0 6846	+0.0055	0.8880	0.87		12,112	34,598	Dec		1.5588	1.5576	+0.0000				10,242	42,0
, 0	8940	0.8926	+0.0054	0.8855	0.89	208	78	2,164	Mer		1.5540	1.5536	+0.0010			5520 5490	35 2	32
	.8997	0.8997	+0.0046	0.9035	0.85		1	488	JAKE			1.3012		1.00	_ 1.3	-100	-	'
					ill più				EM	S EUI	ROPE/	W CU	RREN	CY U	UT R	ATES		
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15		Over- night	7 days	One	Thre		Sbk	One	Beigl	LINTO	39.396	0 38	4533	-0.0974	-2	.39	7.40	
hand Pares		1 ₄ . 6 ³ 2	67 - 65	63 - 65	64 -		H - 6/2	55 - 5%	Germ		1.9100		37038 1632	-0.00501 -0.0338		.08 .05	7.05 7.02	
bank Steron ing C-Da	N /			633 - 63	85 ₈ -	6,2 6,		612 - 914	Spein	1	162.49	8 ' 16	1.136	-0.244	-0.	84	5.71	
security Billis		:	:	65 - 61 61 - 61	B33 -	61 6,			Portu		7.2858 195.79		25785 6.468	-0.0108 -0.548		.38 .36	5.23 4.47	
ak Basa Si Sulthorniy I	deas B	<u> 12 - 611</u>	634 - 058	64 - 64		65 6		65 - 612	Franc	**	6.4060	8 6.4	16891	+0.00383	0.	98	6.81	
count Named	t deps	· 64	6월 - 터팅	•			-	-	Legian		0.79221	4 0.83	30457 4	0.004686	4.	.83	0.00	_
Chichard pour	ık base le	ndug rak	6 per c	ent from F	abruszy 2 3-4	2, 1995 6	8-9	9-12	NON		292.86	7 90	9.854	-0.071	5	80	-0.92	
			Up to 1 month	month	man		months.	months	Italy		2106.1	5 21	23.79	+15.55	0.	84	3.96	
ts of Tax de	n 6:000	100)	3	634	51		6	614	Enu ca	-	0.79665 net by the			0.006484 L Custoncia		.65 escendino	-3.52 relative str	enath
	מויז שבחנו	0 000 a 21	ppc Doposit	o withdrawd	for cash sport Fina	14pc. nce. Mai	ice up day	Qet 31,	Percen	tage chen	ges see for	Ecu; a pos	idea chang	e denotee a	-	rency. Div	and Ecu ce	•=== 1
n of Tax 1879					·	e m e 07.	pc. Hefere	nce rate for	1		nd the mix							
g gal Tiple (1972) Maria language		Nov 26. 1	995 to Dec 2	N 6.81100	. Finance	House B	late Rate 7	he see	Fou ce	ntrai nitte.					tion of the	curancy'		
g of Tax Arg Medic Life of Agreed Take of Sep St. 19	igh to Cry Lea Peanso A special							, po po	Fou ce	ntrai nitte.					tion of the	curancy'	the Finance	
g of Tax Arg Sender Life o Agreed Take 22 Sep \$4, 19	of discounts for period sol to Carl CATTH ST	ERLING	FUTURES	(LIFFE) S		points o	of 100%	Open Int.	(17/9/9	ntral ritte. 2) Stacing		Um auspe	aded from I	EFNL Adju	tion of the Items cal	cultated by		
gel Tax Amp Mender Later of Ampred Taker of Sep Su. 19 Ember 1, 1995 THREET MO	e for period 10% to Cot 10% to Cot 10% to Cot	ERLING Sett price	FUTURES Change	(LIFFE) S High		points o	of 100% Est. voi 16281	Open Int. 80658	Ecu ce (17/9/9	ntral ritte. 2) Stacing	, and balles , PHILA SE	Lim suspe £/S OPT	noted from 1 RONS £3	1,250 (ce	tion of the	outsted by outsted by outsd)	the Finence	işi Tir
gel Tax ing Jender rate o August rate of Sep St. 19 Control 1, 1995 FHRISE MO	of descript for period 195 to Cot 198 to Cot 198 th Cot	ERLING	Change -0.01 -0.01	(LIFFE) S High 93,42 93,66	500,000 Lor 93.3 93.5	points o	of 100% Est. voi 16281 36998	Open Int. 80658 83715	Egu co (17/9/9 E Price Price	ntral ritte. 2) Stacing	and bytes PHIA SE	Lim suspe £/\$ OPT CAL Ja	nded from 1 70KS £3 LS	1,250 (ce Feb	tion of the straint calc nts per po Dec	currency* culated by current)	the Finance	ial Thr
gel Tax dep Weder Life of Append Tak King St. 19 mber 1, 196 PARKEE MO	ones of the period of the peri	ERLING Sett price 93 36 93 59 93 63	Change -0.01 -0.01 +0.02	(LIFFE) S High 93.42 93.66 93.69	500,000 Los 93.3	points c	of 100% Est. voi 16281 36696 17466 10156	Open Int. 80658 83715 48739 41982	Ecu co (17/9/9 Strike Price 1,540	ntral ritte. 2) Stacing	PHIA SE Dec 2.40 1.77	Lim suspen £/\$ OPT GAL Ja 2.9 2.3	noted from 1 TONES £3 LS n n 11	1,250 (cer Feb 3.58 3.03	aton of the etchart calc ats per per Dec 0.72 1.09	currency* cultated by cultated	the Financial Inches	Feb 2.1 2.5
g of Tax step Weeker rate of A Append rate of Step St. 149 miles 1, 1745 PHEREE MO	on description of the period of the Cort o	ERLING Sett price 93 36 93 59 93 63 93,53 91 34	Change -0.01 -0.01 -0.02 +0.03 +0.03	High 93.42 93.66 93.69 93.60 93.42	500,000 Los 99.3 93.5 93.5 93.4 93.3	points of E	of 100% Est. voi 16281 36996 17466	Open Int. 80658 83715 48739	Ecu co (17/9/9 Strike Price 1,540 1,550	ntral ritte. 2) Stacing	Dec 2.40 1.77 1.25	Lis suspe 2/8 OPT CAL Ja 2.9 2.3 1.8	TONS \$3 LS	1,250 (cer Feb 3.58 3.03 2.54	nts per per Dec 0.72 1.09 1.58	currency* cultated by cultated	the Finance LITS	Feb 2.1 2.5 3.0
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a of law step Mender stan of Agreed rate at step 24, 19 1, 1945 PRINCE MO 2 9 9 9 9 9 9 1 1 1 1 1 1 1 1 1 1 1 1 1	of december of the period of t	ERLING Sett price 93 36 93 53 93 53 93 34 en element MA	Change -0.01 -0.01 +0.02 +0.03 figs. are for	High 93.42 93.66 93.69 93.60 93.42 provious c	500,000 Lor 98.3 93.5 93.4 93.3 say.	points (w E 5 57 19 100%	of 100% Est. vol 16281 36996 17466 10156 3384	Open Int. 80658 83715 48739 41982 28298	Ecu co (17/9/9	ntral rith. 2) Staring MLADIEL	Dec 2.40 1.77 1.25 0.85 0.55	Lira suspei 2/8 OPT GAL Ja 2.9 2.3 1.4 1.1 0.8 357 Puls 6,	2015 £3 LS n h h 18 17 15 0 0 n h 18 17	Feb 3.58 3.03 2.54 2.10 1.78 1.45 ciey's open	nts per proper per per per per per per per per per	outsid by outsid by outsid) 1 1 2 2 3 4 229,877	rts	Fed 2.1 2.5 3.0 3.5 4.1 5.5
of Tay Ary Major Lain A Agreed Tale Agreed Tale Of Sep 24, 19 Mills 1, 1992 10 10 10 10 10 10 10 10 10 10 10 10 10	9 december 1 for persons 10 for persons 10 for persons 10 for 10	93 35 93 36 93 36 93 33 93 33 93 34 91 60 92 0 PTIONS	Change -0.07 -0.01 +0.02 +0.03 figs. are for 5 (LIFFE) \$\frac{1}{2}\$	High 93.42 93.65 93.69 93.60 93.42 provious t 500.000 p	500,000 103,3 93,5 93,5 93,3 109,0 Dec 0.05 0.40	points (# E 5 57 79 79 8 10 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 96 100 96 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100	of 100% isk vol 18281 36995 17488 10156 3384 UTS	Open Int. 80658 83715 48739 41982 28298 Jun 0.22 0.31 0.43	Ecu co (17/9/9 B PH Strike Prica 1,590 1,590 1,590 Previous	ntral nith. 2) Stading MLADMI. day's w	Dec 2.40 1.77 1.25 0.86 0.55 0., Calle 5,	2/3 OF7 CAL Ja 2.9 2.8 1.8 1.4 1.1 0.8 157 P.M. 6.	AR (MAA)	1,250 (com Feb 3,58 3,58 3,03 2,54 2,10 1,78 1,45 day's open High	Dec 0.72 1.09 1.58 2.17 2.82 strt., Calls	currency* cutated by cutated by cutated pt 1 2 2 3 4 4 223,877 0%6	the Finance 1/15 1/25 1/26 1/26 1/26 1/26 1/3 1/3 1/3 1/3 1/3 1/3 1/3 1/3 1/3 1/3	Fee 2.1 2.5 3.0 3.5 4.1 5.5 6
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of Tau Arp Market Jan Ar America Tain America Tain America Tain America Tain America Tain America Mo	9 december 1 for persons 10 for persons 10 for persons 10 for 10	93 35 93 36 93 36 93 33 93 33 93 34 91 60 92 0 PTIONS	Change -0.07 -0.01 +0.02 +0.03 figs. are for 5 (LIFFE) \$\frac{1}{2}\$	High 93.42 93.65 93.69 93.60 93.42 provious t 500.000 p	500,000 103,3 93,5 93,5 93,3 109,0 Dec 0.05 0.40	points (# E 5 57 79 79 8 10 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 96 100 96 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100	of 100% isk vol 18281 36995 17488 10156 3384 UTS	Open Int. 80658 83715 48739 41982 28298 Jun 0.22 0.31 0.43	Ecu co (17/9/9) E PH Strike Prica 1,540 1,550 1,590 1,590 Previous Previou	abel site. 2) Stading HLADIEL ab day's ware	Dec 2.40 1.77 1.25 0.85 0.55 d., Calle 5, Colle	Lin suppe 2/3 OPT CAL Ja 2.5 2.5 1.6 1.7 1.1 0.1 357 Puts 6.	AR (MAA)	Feb 1,250 (ce Feb 3,58 3,03 2,54 2,10 1,178 1,145 city's open	tion of the stream calculates per	outsted by outside by outside by outside by 1 1 1 2 2 3 4 2229,877 096 288 4 84 64 64 64 64	the Finance 175	Fed To 2.1 2.5 3.0 3.5 5.5 6 5 5 5 2.1 4.10, 6 5 5 2.1 4.10, 6 5 5 2.1 4
of Tay Ary Major Lain A Agreed Tale Agreed Tale Of Sep 24, 19 Mills 1, 1992 10 10 10 10 10 10 10 10 10 10 10 10 10	9 december 1 for persons 10 for persons 10 for persons 10 for 10	93 35 93 36 93 36 93 33 93 33 93 34 91 60 92 0 PTIONS	Change -0.07 -0.01 +0.02 +0.03 figs. are for 5 (LIFFE) \$\frac{1}{2}\$	High 93.42 93.65 93.69 93.60 93.42 provious t 500.000 p	500,000 103,3 93,5 93,5 93,3 109,0 Dec 0.05 0.40	points (# E 5 57 79 79 8 10 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 96 100 96 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100 96 100	of 100% isk vol 18281 36995 17488 10156 3384 UTS	Open Int. 80658 83715 48739 41982 28298 Jun 0.22 0.31 0.43	Equ co (17/9/9) E PH Strike Price 1,540 1,550 1,590 1,590 Privies E TH Dec Mar Jun	ntel site. 2) Stading int ADMI. day's was day's d	Dec 2.40 1.75 0.85 0.85 0.85 0.85 0.85 0.85 0.85 0.8	Lin suspen 2/8 OFT Jan 2,9 2,3 1,4 1,1 0,5 557 Puts 6, \$0000011 1,5 1,5 1,5 1,5 1,5 1,5 1,5 1	AR (MA)	Feb 1,250 (cos Feb 3,58 3,58 3,58 3,58 1,78 1,78 1,45 day's open Feb 94,35 4,85 94,77 Sim per	Dec 0.72 1.09 1.58 2.17 2.82 1.1. 2.82 1.1. 2.83 1.1. 2.33 1.1. 2.	Ourency outside by Oured) 1 1 2 2 3 4 4 223,877 096	the Finance 1775 and	Fee 2.1 2.5 3.0 3.5 4.1 5.5 6 2 2 3 3 2 4 1 0 3 3 2 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3
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of Tay Ary Major Lain A Agreed Tale Agreed Tale Of Sep 24, 19 Mills 1, 1992 10 10 10 10 10 10 10 10 10 10 10 10 10	9 december 1 for persons 10 for persons 10 for persons 10 for 10	ERLING Sett price 93 35 93 35 93 33 93 33 94 60 60 70 CAN 0 4 0.2 0.1	Change -0.07 -0.01 +0.02 +0.03 figs. are for 5 (LIFFE) \$\frac{1}{2}\$	(LIFFE) S High 93.42 93.66 93.69 93.60 93.42 provious s 500.000 p	500,000 Lor 93.3 93.5 93.5 93.3 tay. oints of Dec 0.05 0.19 0.40 Cafe 15	points (w · E 57 57 59 88 10 100% 	of 100% isk vol 18281 36995 17488 10156 3384 UTS	Open Int. 80658 83715 48739 41982 28298 Jun 0.22 0.31 0.43	Esu co (17/8/2) Strikes Prica 1,540 1,590 1,590 1,590 Province Mar Jun	and	Dec 2.40 1.75 0.85 0.86 0.55 0.4 Cells 5, 0.87 0.47 0.55 0.4 Cells 5, 0.87 0.4 Cells 5, 0.4 Cell	Line suspen 2/8 OPT 24 25 23 14 17 10 857 Puts 6, 10 10 10 10 10 10 10 10 10 10	AR (MA) +0.01 +0.01	Feb 1,250 (com Feb 3,58 3,03 3,03 2,54 2,10 1,78 1,45 day's open High 94,75 \$1m per 94,75	Dec 0.72 1.09 1.58 2.17 2.51 2.82 int., Calls 1.00% 1.00% 1.00 1.00% 1.0	outrency* cultated by cound) 1. 1. 2. 2. 3. 4. 223,877 096 74 .64 .67 .74	the Finance 1715 Jan .34 .76 .25 .778 .42 .13 Puis 258.63 Finance 166.006 .65,797 70,900	Fee 2.1 2.5 3.0 3.5 4.1 5.5 6 5 9.22 6,8
a of Tan Arry Mendan Lain A. Agreed rate of Serge St. 1978 PRESER MO Committee 1, 1978 PRESER MO Comm	Dec 0.16 C.25 D.11 As 170 D.16 C.25 D.11 C.1 S.17 D.11 C.1 S.17 D.11 As 170 D.11 C.12 D.11 As 170 D.11	ERLING Set page 93 36 93 59 93 63 93 34 0 ####################################	Change -0.01 -0.01 -0.03 +0.03 hgc. are for 6 .0.5 tg. are for 7 .0.5	(LIFFE) S High 93.42 93.66 93.69 93.80 93.42 provious s 500.000 p	500,000 Los 93.3 93.5 93.4 93.3 say. oints of 0.05 0.19 0.40 Cale 15	points c w E 55 67 100% 100% 100%	of 100% 5:1. vof 16281 36995 17486 10156 3384 UTS	Open Int. 80658 83715 48739 41982 28298 Jun 0.22 0.31 0.43	Esu co (17/8/2) Strikes Prica 1,540 1,590 1,590 1,590 Province Mar Jun	and	Dec 2.40 1.77 1.25 0.85 0.55 ol, Calls 5, 0.85 ol, Calls 5, 0.75 ol, Calls 5,	Line suspen 2/8 OPT 24 25 23 14 17 10 857 Puts 6, 10 10 10 10 10 10 10 10 10 10	AR (MA) +0.01 +0.01	Feb 3.58 3.08 3.58 2.54 2.10 High 94.35 94.75 \$1m pair 94.75 95.11	Dec 0.72 1.09 1.58 2.17 2.51 2.82 int., Calls int., Ca	outrency* cultated by cound) 1. 1. 2. 2. 3. 4. 223,877 096 74 .64 .67 .74	the Finance 1775 1775	Fee 2.1 2.5 3.0 3.5 4.1 5.5 6 5 9.22 6.8 6 8 6 8 6 8 6 8 6 8 6 8 6 8 6 8 6 8
a of Tau Ary Mender Lain of Ary Manual Table Assert Table Months In 1992 Manual Table Months In 1992 Months In 1	Dec	### CALL NATION 1	Change -0.01 -0.01 -0.03 +0.03 +0.03 figs. are for 6 (LIFFE) £ LS -0.05 to 6 (LIFFE) £ LS -0.05 to 6 (LIFFE) £ LEND	High 93.42 93.66 93.69 93.80 93.42 provious 5500.000 p	500,000 Los 99.3 93.5 93.4 93.3 say. oints of 0.05 0.19 0.40 0.05 0.75 0.75 0.75 0.75 0.75 0.75 0.7	points of E 55 577 578 59 88 10 10096 1009	of 100% Est. voi 16281 36995 17486 10156 3384 UTS	Open Int. 80658 83715 48739 41982 28298 Jun 0.22 0.31 0.43	Esu co (17/8/2) E PH Strike 1,540 1,550 1,590 1,590 Provios E TH Dec Mar Jun Als Ope	and day's war an	Dec 2.40 1.75 0.85 0.86 0.55 0.4 Cde 5.00 0.85 0.4 Cde 5.00 0.55 0.55 0.4 Cde 5.00 0.55 0.55 0.55 0.55 0.55 0.55 0.5	2/3 OF7 2/3 OF7 2.2 2.3 1.6 1.7 0.6 357 Puts 6, 35000012 1.6 94.94 94.86 94.75 95.06 95.11 or previous	AR (MA)	Feb 1.250 (cos Feb 3.58 3.58 3.58 2.54 2.10 1.78 1.45 day's open Feb 94.75 94.86 94.75 \$1m per 94.75 95.15	Dec 0.72 1.09 1.58 2.17 2.51 2.81 2.81 2.81 2.81 2.81 2.81 2.81 2.8	outrency* cultated by cound) 1. 1. 2. 2. 3. 4. 223,877 096 74 .64 .67 .74	the Finance 1775 1775	Fee 2.1 2.5 3.0 3.5 4.1 5.5 6 5 9.22 6.8 6 8 6 8 6 8 6 8 6 8 6 8 6 8 6 8 6 8
and Tank deep Member Labor American Member 1, 1992	Control Cont	### CALL NO. 1.75 P. 1	Change -0.01 -0.01 -0.03 +0.03 +0.03 figs. are for 6 (LIFFE) \$\frac{5}{6}\$ 0.05 Franciscus day	(LIFFE) S High 93.42 93.66 93.69 93.60 93.42 provious s 500.000 p Aun .60 .44 .31 .31 .31 .31 .31 .31 .31 .31 .31 .31	500,000 Los 93.3 93.5 93.4 93.5 93.4 93.3 say. coints of 0.05 0.19 0.40 15 75 6 75 75 6 75 75 75 75 75 75 75 75 75 75 75 75 75	points of E	of 100% Est. vol 16281 36995 17456 10156 3384 UTS	Open Int. 80658 83715 48739 41982 28298 Jun 0.22 0.31 0.43	Esu co (17/8/2) E PH Strike Prica 1,540 1,590 1,590 1,590 Provis. E TH US Dec Mar Jun As Opa	and day's war an	Dec 2.40 1.75 0.85 0.86 0.55 0.4 Cells 5, 0.87 0.47 0.55 0.4 Cells 5, 0.87 0.4 Cells 5, 0.4 Cell	Line suspen 2/8 OPT 2/8 OPT 2/8 OPT 2/8 OPT 1/8 1/8 1/8 1/8 1/8 1/8 1/8 1/8 1/8 1/8	AR (MA) +0.01 +0.01 day	Feb 1.250 (cos Feb 3.58 3.58 3.58 2.54 2.10 1.78 1.45 day's open Feb 94.75 94.86 94.75 \$1m per 94.75 95.15	Dec 0.72 1.09 1.58 2.17 2.51 2.81 2.81 2.81 2.81 2.81 2.81 2.81 2.8	outrains) cultated by custd) 1 1 2 2 3 4 223,877 1 0%6 74 .64 .67 77 .74	the Finance 1755 and	Fee 2.1 2.5 3.0 3.5 4.1 5.5 6 5 9.22 6.8 6 8 6 8 6 8 6 8 6 8 6 8 6 8 6 8 6 8
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(formerly Johannesburg Consolidated Investment Company, Limited) ("Johnnic" or "the Company")

(Incorporated in the Republic of South Africa - Registration number 01/00429/06)

RESULTS OF ELECTION TO RECEIVE A FINAL DIVIDEND INSTEAD OF THE CAPITALISATION AWARD AND AN ELECTION TO SUBSCRIBE FOR NEW SHARES

The right of election to receive a final dividend instead of an award of capitalisation shares ("the Capitalisation Award") and the right of election by those shareholders electing the dividend to apply the dividend in subscribing for oew Johnnic shares ("the Subscription") made to ordinary shareholders registered at the close of business on Friday, 6 October 1995 ("the record date"), closed at 14:00 on Friday, 10 November 1995. The closing price of Johnnic shares on The Johannesburg Stock Exchange on 9 November 1995 was R52,50. Accordingly, the award of capitalisation shares and the subscription for new shares was determined as a ratio of 1,026571 new shares for each 100 shares held on the record date. Elections to receive the final dividend of 50 cents per share in respect of the year ended 30 June 1995 instead of the Capitalisation Award were received in respect of 88 618 599 shares. Accordingly, a final dividend of 50 cents per share was declared on 19 September 1995 on 88 618 599 ordinary shares in respect of the year ended 30 June 1995. Elections to apply this dividend in subscribing for new shares in Johnnic were received in respect of 73 205 758 of these shares. An amount of R36 602 879 was therefore applied io terms of the Subscription. Accordingly, 1 375 662 new fully paid Johanic ordinary shares of 10 cents each have been allotted in terms of the Capitalisation Award and the Subscription and the issued share capital of Johnnic has been tocreased to 150 606 355 ordinary shares.

Cheques in respect of the final dividend and share certificates will be posted to members

For and on behalf of the board

V G Bray Secretary: per: MMR Naude

Johannesburg, 15 November 1995

Head Office and Registered Office: 28 Harrison Street Johannesburg, 2001 (PO Box 231, Johannesburg, 2000)

JCI (Londoo) Limited 6 St James's Place

NOTICE OF REDEMPTION

SÄÄSTÖPANKKIEN KESKUS-OSAKE-PANKKI/SKOPBANK

(the "Bank") Yen 3,000,000,000 7.30 per cent. **Bonds 1997** (the "Bonds")

NOTICE IS HEREBY GIVEN, that pursuant to Clause 5 (B) of the Terms and Conditions of the Bonds, the Bank will, on November 28th, 1995 (the "Redemption Date"), redeem all nf the Bonds then outstanding at par nf their principal amnunt. Principal and interest up to the Redemptinn Date will be payable at the London Office of The Bank of Tokyo, Ltd. nn and after the Redemption Date. Interest on the Bonds will cease to accrue on and after the Redemption Date.

SÄÄSTÖPANKKIEN KESKUS-OSAKE-PANKKI/SKOPBANK

By: THE BANK OF TOKYO, LTD. as Fiscal Agent

Dated: November 16, 1995

CHEVY CHASE MASTER CREDIT CARD TRUST II

Cheung Kong Finance

China Limited

U-S- \$350,000,000 Exchangeable Guaranteed

Floating Rate Notes

due 1999

guaranteed by Cheung Kong (Holdings) Limited

and exchangeable into

Cheung Kong

Holdings (China) Limited tracorporated in Hong King with hunted habitary

Notice is hereby given that or the Interest Period 15th

vember, 1995 to 15th

February, 1996, the Notes will arry a Rue of Interest of 6.375 per cent, per annum. The Interest Amount per U.S. \$250,000 N ac

will be U.S. \$4,072.92, payable

ored on the Linembourg Stock Enclosing

on 15th February, 1996.

rpresent in the Caryman Islands with limited liability)

U.S.\$138,000,000 Class A Floating Rate Asset Backed Certificates, Series 1995-B U.S.\$12,000,000

Class B Floating Rate Asset Backed Certificates, Series 1995-B Interest Accrual Rate Coupon Amount (USD1 6.062500% 6.182500% U.S.\$697,187.50 U.S.\$61,825.00 tt/13/95

These Interest Accrual Rates and Coupon Amou

Bankers Trust Company as Trustee

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FT-SE 100 breaks out of its recent trading range

By Steve Thompson, UK Stock Market Editor

A spate of weak economic news, which appeared to increase the chances of an interest rate cut, plus another burst of takeover speculation, drove UK share prices sharply higher yesterday.

Such was the momentum behind the equity market that the FT-SE 100 index broke out of its recent short-term trading range, closing a net 23.5 higher at 3,571.4, its best closing level since October 20 and only 21.6 below its all-time closing peak, 3,593.0, reached on October 18. The Footsie's all-time intra-day high was 3,598.0, set on the same day.

The FT-SE Mid 250 index lagged behind, but still managed a 13.9 gain at 3.922.2. The Mid 250 also finished at its highest level since October 20.

The bid speculation that caused ripples of excitement around the City's trading desks was centred on the drugs sector and specifically on Zeneca, one of the market's long standing taksover favourites. A number of potential bidders were being put forward, including Roche, of Switzerland, and Ivax, the US group which called off merger discussions with Hafslund Nycomed,

of Norway, yesterday. Marketmakers said last night that they expected the equity market to

run on further this morning, as some of the fund managers that have recently stood back from the market may decide to top up their weightings before prices run away

"It looks as if some funds might be panicked in, and persuaded to buy on the blue," said one trader. He said after-hours' trading in the FT-SE 100 future indicated a strong opening this morning, given a halfdecent performance by Wall Street, The market's strong performance was all the more impressive given that international bonds eventually closed barely in positive territory, having been sharply higher earlier in the session. And there was precious little support for equities from Wall Street. The Dow Jones Industrial Average gave ground at the opening of trading in the US, before clawing its way back to show a near 10-point rise 90 minutes after London closed for business. Share prices were marked down

at the outset, as dealers took account of Wall Street's rather soggy showing overnight, and slipped further during initial exchanges, after a mixed bag of corporate news items which included profits warnings from BICC, the cables to housebuilding group, and George Wimpey, but the latter news was tempered by a substantial assets switch with Tarmac,

nies' problems with their

that Wimpey had got the better

of the transaction; most saw

the move as potential precur-

sor to further, much needed corporate activity within the

Tarmac moved up 9 to 92%p

Wolseley advanced 9 to a new

worried insurance analysts

with a set of results thet

suggested the sector had saved

the best for last. The insurer's

third-quarter figures were in

line with forecasts and the

perception that the stock is the

safe haven within the sector

saw the shares rise 16 to 614p.

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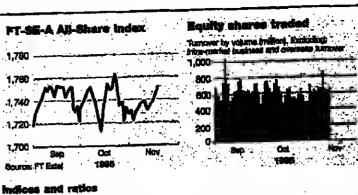
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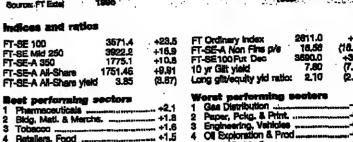
respective divisions. Some felt

The day's economic news, on average earnings, unit wage costs, unemployment and retail sales, all suggested slowing inflationary pressures, as did news from the US on consumer prices, industrial production and capacity utilisation.

After the UK data, stock prices began to pick up, eventually finishing less than one Footsie point below the day's best. Talk in the market suggested that the October public sector borrowing requirement could come in at some £2.6bn. well below forecasts.

Turnover at 6pm was 688m shares, while retail business on Tuesday was worth £1.62bn.





Zeneca hits new peak

Zeneca, the pharmaceuticals group, moved into new high territory with a rise of almost 4 per cent as takeover speculation gathered pace.

Yesterday's jump of 46% to 1290%p on turnover of 1.5m shares included a period of backwardation, the situation where prices are moving so fast that bid prices are briefly higher than offer prices on trading screens. At the time, NatWest Securities was the house bidding for stock.

Analysts were unable to ninpoint any new speculation to add to the theory that groups such as Bristol Myers Squibb, Johnson & Johnson or even Ciba Geigy could make an offer of up to £15 a share for Zeneca.

Mr Ian White of Robert Fleming Securities said there was a strong likalihood of a bid, merger or ecquisition in the medium term. There was some perception that Zeneca could benefit from the collapse of merger talks between Hafslund Nycomed, of Norway, and Ivax, the US generics group.

But other analysts said the sharp rise in the share price vesterriay indicated only that someone believed a hostile bidder was poised to strike. Zeneca refused to comment.

The company is holding a research and development meeting on December 12. Shares in Shell Transport leapt 12% to 768p as the company included some very pre- Footsie performance charts on

cise targets in its London presentation to analysts and institutions.

Shell said it could tolerate a 70 per cent payout ratio on its dividend and expected to make \$9bn net income, on the basis of e \$15 oil price, a \$2 refining margin and a 10 per cent

return on chemicals. Although no dates were mentioned, Hoare Govett argued that Shell is looking to score those goals in three years. The broker said many analysts had expected Shell to concentrate on raising dividand cover rather than lowering it.

British Gas declined 4 to 241%p in spite of revealing third-quarter earnings that met analysts' forecasts.

SGST commacted: "Tha results are just history. The shares are down because of continuing uncertainty over gas contracts, the Transco pipeline price formula and how much market share Gas is likely to lose in the domestic reshuffla next year."

Signs emerged yesterday that the City's top engineering teams are taking sides on Rolls-Royce, NatWest Securities, Merrill

Lynch and Henderson Crosthwaite are all buyers on the back of Rolls-Royce's record breaking £1.2bn aero engines contract. But BZW has reiterated its sell stance and advised clients to take advantage of the recent share price strength.

BZW applauded the aero engines deal but is concerned about R-R's power division and costs and financing pressures generally. It sees the group'e rate of recovery as slow and still exposed to adverse shocks. The stock, which topped the Tuesday with a 7 per cent rise, was the index backmarker yesterday, giving up 4 to 168%p in

In contrast, Smith Industries, which also benefits from the Rolls-Royce order, added a further 5 et 599p. Systems engineer Cobham rose 10 more to 442p as analysts upgraded earnings estimates

Both NatWest and BZW have stepped up Cobham earnings per share estimates following the Westwind Air Bearing deal. The shares have risen 10 per cent in two days.

Plans for an assets swap between Tarmac and George Wimpey sent both shares racing to the top of the FT-SE Mid 250 rankings. The two have mostly been side-steppped by the recent revival for buildingrelated stocks. Yesterday they jumped a combined 24 per cent. Analysts reacted positively, marking down the deal as a sensible solution to the compa-

FINANCIAL TIMES EQUITY INDICES

	Nov 16	Nov 14	Nov 18	Nov 10	Nov 8	Yr ago	High	Low
Ordinary Share	2611,0	2604.2	2588.3	2576.3	2591.0	2418.6	2006.5	2238.3
Ord, div. yield	4.12	4.11	4.13	4.15	4,10	4.26	4.73	4.02
P/E ratio net	16,68	15.69	15.82	15.56	15.62	18.64	21,35	15.35
P/E ratio nil	15.52	15.50	15,49	15.87	15.44	18.19	22.21	15.17
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Equity bergains?		- 3	5,125	35,036	33,5	09 8	5,746	35,243
Shares traded (mi)	rt	-	867,4	603,7	812	2.5	852.0	669.3

Total Place Total Pats	1995 Highs and low Total Highs 79 Total Lows	122	LEFFE Equity options Total contracts Calls	32,740 18,05
	DE County shares listed on th		Puts	14,88

Royal Insurance was flat at 867p, with a post-results sell note from Merrill Lynch impacting on the share price. The broker prefers BAT Industries, which it sees as having the same difficult outlook as

and Wimpey rose 15 to 127p, and the excitement washed climbed 9 to 548p. A severe profits warning over into other building stocks. from BICC cast e pall over the copper cables sector.
NatWest Securities moved BPB Industries gained 12 to 310p, Caradon put on 7 at 196p and Redland added 11 at 343p.

the other insurers but support

from the tobacco side. BAT

from "add" to "hold" on BICC and cut its profits estimate for this year hy £25m to £110m, excluding the group's £80m of reorganisation charges. The broker also trimmed at Delta, alicing profits hopes by some 8 per cent for this year. BICC closed 9 lower at 2530 and Delta came off 3 to 412p.

Data communications and software group Cray Electronics, which stood at 170p earlier this year, rebounded on the back of vague takeover talk. The shares jumped 3 to 54p in 4.4m traded.

Leading food retailing stocks were boosted by a note from Credit Lyonnals Laing. The broker pointed out that the sector had fallen from its relative peak in early September and added that valuations look very reasonable and yields are once again more enticing.

CLL recommended ASDA Group as its favourite buy among the leaders and the shares responded by moving 3% ahead to 102%p, making it the day's best performing stock in the Footsie, following healthy trade of 19m. In the rest of the sector,

Argyll Group rose 7% to 315%p and Tesco 7 to 295p. Rank Organisation slipped 6 to 394p after NatWest Securities advised investors to

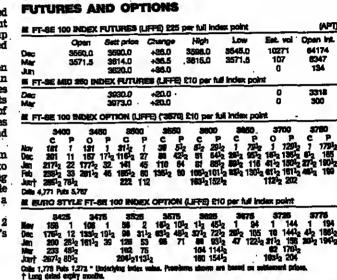
"reduce" holdings. Pentex Oil jumped 20 to 14 on the agreed 156p a share offer from Melrose Energy. Shares in Unigate hardened

acquisition, after it announced plans to sell its 29 per cent stake in Dutch foods group

at around £329m. Early market talk centred on Hazlawood Foods and an advance in the group's shares ran out of steem after analysts discounted the prospect of such a merger. The shares eventually closed just 3 ahead

at 111p. Vodafone, down 6 per cent in three days, rebounded 4 to 255%p in 10m traded following a denial from the UK mobile phones leader that it planned a rights issue.

Cable and Wireless ended 2 easier at 423p ahead of today's



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840,00	-2.7	1908,79	2067,46	1,96		2070.00	1637.9
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306.51	-1.4	2338.32	2641.48	2.14	26.02		
597.75	-2.0	1630.91	1604.20	0.84	45.88	1831,00	1348.1
	848.80 900.91 306.51 597.75	848.80 -2.7 500.91 -4.7 306.51 -1.4 597.75 -2.0 men Limited 19	848.80 -2.7 1908.79 800.91 -4.7 2624.08 306.51 -1.4 2338.32 597.75 -2.0 1630.91	848.80 -2.7 1868.79 2067.46 500.91 -4.7 2624.08 3341.84 306.51 -1.4 2398.32 2841.84 307.75 -2.0 1630.91 180.91 1909. Limited 1895. *FT Codd Mines	848.80 -2.7 1808.79 2067.45 1.95 500.91 -4.7 2624.08 3341.84 4.07 306.51 -1.4 2398.32 2841.86 2.14 597.75 -2.0 1630.91 1804.20 0.84 mass Limited 1895. *FT Gold Minnes Indoor is a	848.80 -2.7 1808.79 2067.46 1.95 - 500.91 -4.7 2624.08 3341.84 4.07 21.99 306.51 -1.4 2398.32 2841.86 2.14 26.02 597.75 -2.0 1630.91 1804.20 0.84 45.88 mass Limited 1895. *FT Gold Mines Index* is a trademar	848.80 -2.7 1808.70 2067.46 1.86 - 2078.00 500.91 -4.7 2624.08 3341.84 4.07 21.89 3363.99 306.51 -1.4 2339.32 2641.48 2.14 25.02 2691.08 597.75 -2.0 1630.91 1804.20 0.84 45.88 1831.00 mos Limited 1995. *FT Codd Nilmes Index* is a randemark of Tipe

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1 - 3E ACTURITES O	male ni		2	-			_		HE C	1V 0	enes
	Nov 15	Day's chook	Nov 14	Nov 13	Nov 10	year Year	Div. yield%	Net	P/E ratio	Xd adj	Total Return
FT-8E 100	3571.4	+0.7		3536.B			4,00	2,09			1418.67
FT-SE Mid 250	3922.2	+0.4					3.50	1.82		133.23	
FT-8E MAC 250 ex lay Trusts FT-8E-A 360	1775.1	+0.5					3.83	1.88			1541.97
T-SE-A 350 fligher Yield	1786.0	+0.6					4.94	1.84		79.36	1189.70
T-86-A 350 Lower Yield	1789.1		1778.1				2.82	2.39		47.01	1213.82
T.W. Gradican	1936.84		1935.52				3.36	1.68		56.18	1561,17
T-SE SmallCap ex low Trusts	1823.36		1922.54				3.59	1,78		59.28	1558.62
T-SE-A ALL-SHARE	1751.48	+0.6	1741.55	1736.92	1732.39	1560.20	3.85	2.02	16.11	62.04	1445.82
FT-SE Actuaries All-	Share	Donda				·	-	N-4			
	Nov 15	Day's choe%	Nov 14	Nov 13	Nov 10	Year ago	Div. yield%	Net	P/E ratio	Xci acij.	Total Return
10 MINERAL EXTRACTION(23)	2971.68	_	2952.91				3.94				
12 Edractive Industries(7)	4127,98		4120.75				8.56	2.02 2.51			1250.49 1183.58
15 Of, Integrated(3)	2976.74	+0.8	2952.19	2913.08	2895.28	2003.20	4.13	1.96			1284.10
18 Of Exploration & Prod(13)	1888,85	-0.4	1896.52	1881_24	1880,22	1873.79	2.66	1.49		48.88	1121.10
20 GEN INDUSTRIALS(277)	1948.44		1945.58				4.26	1.80	15.55		1041.09
21 Building & Construction(36)	970.13	+1.0	960.51	957.58	920.09	1057.60	4.13	1.87	15.35		797.60
22 Building Matts & Merchs(31)	1730.28		1000.13				4.31	2.08	14.07	67.09	855.55
23 Chemicals(23)	2375.20		2365.54				4.13	1.89	16.05		1099.07
24 Diversified Industrials(20) 25 Electronic & Elect Equip(36)	1766.68 2126.11	-0.4	1775.26 2128.57	1708.25	7708.54	1620.26	5.61	1.56	14.26		961.07
26 Engineering(88)	2140.11		2143.68				3.52 3.50	1.96 2.25		61.70 64.87	1084.55
27 Engineering, Vehicles(13)	2542.66		2655,26				3.69	1,17	29.07	93.58	1275.46 1285.42
28 Paper, Policy & Printing(27)	2755.62		2773.14				3.63	2.49	13.84		1125.18
29 Textiles & Apparel(21)	1474,47	+1.0	1460,32	1446.55	1454.09	1573.43	4.88	1.84	13.94		881.19
30 CONSUMER GOODS(88)	3500.80	+1.1	3462.46	3454,07	3438.19	2798.13	3.84	1.78	18.15	120.75	1205.18
31 Breweries(17)	2094.80	+0.4	2684.63	2673.17	2064,41	2228.58	3.73	1.95			1263.23
32 Spirits, Wines & Ciders(9) 38 Food Producers(24)	2830.08 2484.74		2831.33	2815.16	2807.28	2877.75	4.23	1.63		107.18	995.17
34 Household Goode(11)	2530.40		2478.08 2516.87				4.04 8.78	1.85		85.40	1095.11
36 Health Care(17)	1940.78		1929,44				2.68	2.20 1.81		90.95 48.10	950.07
37 Pharmaceuticals(10)	4897.77	+2.1	4797.57	4793.73	4762,93	3115.87	3.36	1.70	21.80	153.87	1164,07 1633,05
38 Tabecca(t)	4595.45	41.6	4523,45	4531.92	4514.98	8813.51	5.22	1.94			1111.78
40 SERVICES(226)	2166.01	+0.6	2148.57	2142.53	2138.93	1938.44	8.10	2.05		84.10	1108.00
41 Distributors(30)	2631.02	+0.4	2621.07	2620.21	2614.26	2551.49	3.81	1.78	18,48	90.78	968.52
42 Lainure & Hotele(25) 43 Media(45)	2432.08 3442.48	+0.4	2421.20	2421.59	2410.72	2088.24	3.30	1.84	20.50	73.57	1245.78
44 Retailers, Food(16)	1966.54	+0.5 +1.5	3430.77 1937,40	1922 92	1012 00	1797 44	2.12 3.68	2.40	24.63		1230.61
45 Retailers, General(44)	1837.41		1810.42				3.58	2.40 2.12		65.22 57.68	1226.83
48 Support Services(37)	1843.38	+0.4	1835.95	1835.25	1836.33	1526.63	2.80	2.48			1034.72
49 Transport(20)	2194.58	+0.2	2189.96	2173.74	2190.20	2291.61	3.87	1.30	24.16	80.03	898.64
51 Other Services & Business(7)	1161.30		1157.06		_		4.46	1.40	19,97	43.10	1043.92
60 UTILITIES(DG)	2487.79	-0.1	2490.40	2495.98	2816.78	2454.34	4.87	2.06	13.03	104.48	1019.96
62 Electricity(13) 64 Gas Distribution(2)	2850.31	-0.3	2858.11	2873.50	2919.05	2572_14	4.01	2.84	10.98	143.97	1280.45
56 Telecommunications(7)	1601.29 2034.74	-1.5	1626.88 2031.08	2046 24	1067,35	2018.59	7.48	1.04	16,08	110,82	803.38
68 Wester(13)	2074.82	+0.5	2064.37	2070 50	2091 82	1882 20	4.11	1,74		51.48	905.01
69 NON-FINANCIALS(650)	1854.99						5.50	2.88	8.31	98.42	1108.88
			1844.47				3.88	1,94	16.56	66.15	1375.83
70 FINANCIALS(113)	2774.00	+0.7	2755.95	2747.85	2729.57	2240.33	4.02	244		_	1158.54
71 Benks, Retali(9) 72 Benks, Merchant(8)	3926.61 3549.55	+0.5	3901.67	3872.55	830.02	2997.94	3,70	2.81	11,80	140.81	1238.45
73 ingurance(25)	1362.23	412	3534.68 1345.66	1959 77	344.62	2637,00	2.61	2.41	19,82	28.34	1110.07
74 Life Assurance(8)	3234.38	+0.7	3213.45	3243.55 °	20.00	7200 D1	5.41 4.31	2.68	6.63	72.2%	997.44
77 Other Financial(22)	2386.60	+0.1	2384.84 :	2391.71 2	25 ASS	100221	4.31 3.73	1.53	18.89	138,72	1317.60
79 Property(45)	1576.72	+0.5	1369.48	1367.41	386.43	1434.04	4.51	1.93 1.53	17.31		1331.26
(0) INVESTMENT TRUSTS(132)	2912.67	₩ 0.1	2909.51	2004 66	2004 00	7770.04		_			825.65
		10.0	1741		-04,02	211234	2.29	1.05		56,55	1004.49
80 FT-8E-A ALL-SHARE(806)	1751.46		1741.55			1560.20	3.85	2.02	18.11	62.04	1445,82
T-SE-A Fledgling	1089.48		1089.24	1087 17	1000 00						
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Time of FT-6E 100 Day's High: 4.00pm Day's Iow. 9.01am. FT-6E 100 1666 High: 3583.0 (1870) Love 2954.2 (297).

II FT-SE Actuaries 350 Industry baskets 955.4 980.1 971.0 975.5 972.4 973.7 973.1 4733.3 4733.5 4737.8 4752.7 4752.7 4752.0 4753.2 2081.0 2081.5 2059.8 2056.1 2052.8 2055.5 2055.7 3636.9 3948.8 3956.8 3957.8 3855.8 3968.0 3965.1 14.00 19.10 871.1 970.8 4774.6 4825.1 2066.8 2070.1 3964.6 3977.0 953.7 4743.5 2059.4 3951.5

ARROW VENTURES N.V.

NOTICE OF REPURCHASE OF SHARES

On behalf of the Board of Supervisory Directors of Arrow Vectures N.V. (the "Company"), we are pleased to provide you with notice of an offer by the Company to repurchase up to 194,417 of the Company's 2,052,776 outstanding shares of ooe U.S. cent par value each (the "Offer"). The Offer is open to all holders of shares of the Company registered in the Register of Shareholders of the Company at 12 ooon on November 14, 1995 (the "Record Date").

The redemption of shares by the Company will follow an aggregate distribution of \$5.0 million by Arrow Partners C.V. to its partners, including Arrow Ventures N.V. The Investment Advisor has determined the amount of the distribution to be prudent given the partnership's current liquidity.

Pursuant to the Offer, the Company offers to repurchase e maximum of 194,417 shares at a price of U.S.\$20.42 per share (the "Purchase Price") payable in cash. The Purchase Price represents the uneudited net asset value per share of the Company as at September 30, 1995.

If you desire to accept this Offer, you should lodge with Caribbean Management Company N.V. ("Caribbean") at John B. Gorsiraweg 6, P.O. Box 3889, Willeustad, Curação, Netheriands Autilles, share certificates representing your shares of the Company and you should indicate the number of shares tendered by you for repurchase by the Company. Said share certificates must be received by Caribbean on or before 12 noon (local time) on December 7, 1995. If more than 194,417 shares are validly tendered by the shareholders, Arrow Ventures N.V. shall repurchase 194,417 on a pro rata basis according to the aggregate number of shares validly tendered by each shareholder. If fewer than 194,417 shares are validly tendered by the shareholders, Arrow Ventures N.V. shall repurchase all shares

The repurchase price payable by the Company in respect of such repurchased shares will be paid by check drawn on the Company and made payable to you or your order posted et your risk together with a receipt and the balance of your share certificates to your address recorded in the Register of Shareholders not later than December 14, 1995.

You should ascertain from your professional advisors the consequences to you of accepting this Offer under the relevant laws of the jurisdiction to which you are subject, including the

tax consequences and exchange control requirements, if any.

November 14, 1995

CARIBBEAN MANAGEMENT COMPANY N.V. Managing Director of Arrow Ventures N.V.

SOCIETE GENERALE ALSACIENNE DE BANQUE

SOCIETE GENERALE BANK & TRUST

Notice of change of agent Notice is hereby given to the holders of Bonds and Warrants for which the Luxembourg Branch of SOGENAL acts as Fiscal Agent, Principal Paying Agent, Warrant Agent, Paying Agent, Conversion Agent, Issue and Paying Agent or in any other similar capacities, that with effect from January 1st, 1996, those functions will be transferred to the wholly-owned subsidiary of the SOGENAL Group.

SOCIETE GENERALE BANK & TRUST 11-13, Avenue Emile Rauter 1-2420 Luxembourg

Dated as of : November 15, 1995

SOCIETE GENERALE BANK & TRUST SOGENAL COMPAGNIE BANCAIRE FRF 800.000.000 FLOATING RATE NOTES DUE 1997

In accordance with the Terms and Conditions of the Notes, notice is hereby given that the Interest Payment Dates in 1996 in respect of the subject Notes shall be as follows:

March 20, 1996

June 19, 1996

September 18, 1996

December 18, 1996

THE PRINCIPAL PAYING AGENT SOGENAL SOCIETE GENERALE GROUP 15, evenue Emile Reuter LUXEMBOURG

174

Sector reports by Fax Media 0891 437 156 The latest share price reports by dialling the above number from the handset or keypad on your fax machine. Per details of Chylles Insecutions, services to continues contribe the LIR, phone cell +44 171 873 4378

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awaiting FOMC news

Wall Street

Uncertainty prevailed on Wall Street early yesterday, leading shares to a volatile performance within relatively narrow ranges, writes Lisa Bran-sten in New York.

Factors weighing on the mar-ket included the continuing skirmishes in Washington over the outline of a deficit-cutting budget package and questions about what the Federal Reserve's Open Market Committee might do at its meeting. Most economists believed the FOMC would leave rates steady, but weak industrial production figures released vesterday raised hopes that the

December. At 1 pm the Dow Jones Industrial Average was 7.95 higher at 4,879.76. The Standard & Poor's 500 softened 0.51 point to 589.80, while the American Stock Exchange composite dipped 1.48 to 527.13. New York SE volume amounted to 209m

central bank might cut rates in

After rising more than five points at the opening bell, the Nasdaq composite, which is up \$% at \$16% and Grupo Tri-weighted towards the technol-basa was \$% easier at \$5%.

Market

Argentina Brazil

Latin America

Philippines Talwan, Chine India'

Indonesia⁴ Malaysia Pakistan

Sri Lanka

Greece Hungary' Jordan Poland

South Africa

Austria (27) Belgium (35 Brazil (26)... Canada (100).

rance (100)

Thailand Euro/Mid East

rest of the morning in negative territory amid modest losses at beliwether high-technology companies.

By midday the Nasdaq was

off 1.05 at 1.039.57. Microsoft declined \$% to \$931/4. Intel was down \$1/4 at \$64½ and Apple Computer gave up \$1/4 at \$41.

Shares in several paper and forestry groups slipped after analysts at Salomon Brothers and PaineWebber downgraded their investment ratings. Consolidated Papers slipped \$31/2 or 5.4 per cent to \$61%, International Paper, which is a component of the Dow, gave up \$% at \$34%, Georgia Pacific was \$2 lower at \$74, Stone Container shed \$1/4 to \$14% and James River lost \$1/4 at \$28.

USAir, which tumbled \$3% on Tuesday after United Airlines said it would not make an offer to huy its smaller rival. feli a further \$1% or 9.7 per cent to \$101/2.

American depositary receipts of Mexican companies were mostly lower as the peso continued to drop. Telmex shed \$1/4 to \$25%, Grupo Televisa gave

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES

over week on Dec '94

The ontperformance of Hong Kong relative to the IFC Asia regional index has surprised some analysts, writes John Pitt. Mr Albert Edwards, for instance, Kleinwort Benson's global strategist, says that excluding Hong Kong, the Pacific Rim has fallen some 15 per cent in dollar terms so far this year. This compares with a rise of 17 per cent in dollar terms so far this year in Hong Kong. Taken in perspective the statistics reveal a slightly different picture. Mr Edwards notes that in 1994 IFC Asia declined by 1 per cent, against Hong Kong's drop of 31 per cent. Furthermore, this year's IFC Asian decline, he observes, "represents only a very partial unwinding of the 66 per cent gain enjoyed during 1993". He warns that Hong Kong's ontperformance could be coming to an end "as high positive real interest rates exacerbate recessionary worries". He prefers the north Asian enclave of Korea and Taiwan, together with Singapore.

as high positive real interest rates exacerbate recessionary wornes. He prefers the north Asian enclave of Korea and Taiwan, together with Singapore. ING Barrings has also turned positive on the latter, and yesterday published a hullish note about the city state's banking sector. The group also noted in a separate report that the Asia cellular sector has great potential. Mr David Barden says he expects subscriber growth in the region to reach 31 per cent in the five-year period between

now and 2000.

Following the assassination of Mr Yitzhak Rahin, the Israeli equity market has been relatively calm. UBS Emerging Markets remains a long-term buyer and notes that the interim government is likely to forge even closer ties with the central bank, since Mr Shimon Peres, the acting prime minister, has a good relationship with the governor.

Dollar terms

% Change

644.31

236.46 103.18 85.70 103.97 245.31 246.43 110.58

349.84 141.29

241.19 117.87

FT/S&P ACTUARIES WORLD INDICES

Canada

Toronto was weak in midday trade, with the TSE 300 Composite index retreating 13.41 by noon to 4,558.75 in moderate volume of 29.2m shares.

A mixed picture emerged among high-technology shares. Hummingbird Communications immped C\$3% to C\$70% and Gandalf Technologies was C\$1% higher at C\$15%. In the opposite direction, Fulcrum Technologies gave up C\$2% on profit-taking to C\$40% and Corel lost C\$% to C\$23%.

Among actively traded issues, Asia Pacific Resources picked up C\$% to C\$7% and cents firmer at C\$4.25.

SOUTH AFRICA

Shares were easier as a disappointing ballion price undermined gold shares and industrials drifted easier. The overall index lost 27.6 to 5.980.9. industrials shed 18.9 to 7,616.3 and golds feli 81.9 to 1,326.2. Among significant movers, Anglos receded R3 to R218. Vaal Reefs R5 to R231

Local currency terms

1995 over week on Dec '94

-4.0 -2.9 -5.3 -3.4 -2.8 -1.6 +1.9 -4.8

% Change % Change

by 1997.

US markets volatile Paris rallies 2% on welfare reforms

There was relief in PARIS as the government unveiled its tough measures to tackle the social security deficit. The details exceeded expectations and the CAC-40 index jumped 2 per cent or 36.97 to 1,875.18 in turnover of FFr4.2bn. Mr Alain Juppé, the prime minister, said he hoped to balance the budget

Mr Stuart Glenister of Société Générals Equities International in London said that the market liked the fact that the government was taking a tough stance, and there were strong expectations now of a further reduction in inter-

Financials were also lifted by news that the property development exemption tax was to be extended by another two years. Bancaire forged ahead FFr27 or 5.2 per cent to FFr549, Paribas FFr12.90 or 4.7 per cent to FFr286, UAP FFr5.90 to FFr135.90 and SocGen FFr17 to

Elf Aquitaine, which had suffered in recent sessions, was another good story, moving forward FFr15.40 or 4.7 per cent to FFr345.

But there was heavy selling in Euro Disney, suspended dur-ing the session limit down, as tha market reacted with disappointment to its year to end

tumbled FFr2.35 or 14.2 per cent to FFr14.20.

Analysts said that in spite of the thems park's first ever annual profit; the main factor contributing to a return to the black was an extraordinary gain from the repurchase of convertible bonds, while a debt holiday was another contributory factor.

STOCKHOLM was given a new lease of life by Ericsson's nine-month figures and the Affärsvärlden index picked up 6.3 to 1.699.6.

Ericsson closed SKr8 or 5.7 per cent higher at SKr148.5 after posting a 37 per cent rise in pre-tax profits. Analysts noted that the results were in line with expectations but that the shares had heen under

recent pressure.
FRANKFURT drifted as sentiment was hurt by weakness. in the dollar during the session, although there was a rally in this trade. The Dax index fell 11.12 to 2,186.17. However, led by futures the Ibis managed to go forward to 2.196.64. Turnover was DM5bn.

The bank sector took a hit although Bayerische Hypoth-eken managed to rebuild early losses, ending floor trading unchanged at DM34.10, before rising to DM34.15 in the Ibis.

The composite index dipped

Samsung Electronics fin-

ished down Won8,500 at

Won145,500 on heavy foreign

selling prompted by worries

about a global glut of micro-

Among other blue chips,

Korea Mobile Telecom fell

Won22,000 to Won452,000 and

LG Electronics declined

KUALA LUMPUR rebounded

after six straight days in

decline as Tenaga Nasional led

blue chips higher. However,

analysts were sceptical whether the rally was sustain-

able as institutional buying

was subdued and led by local

funds. The composite index

Won900 to Won27,900.

11.3 to 937.04, its lowest close

since September 5.

processors

THE EUROPEAN SERIES 11,00 12,00 13,00 14,00 15,00 Close Hourly changes FT-SE Euroback 100 1405.34 1406.64 1410.54 1411.26 1410.59 1411.62 1411.63 1412.62 FT-SE Euroback 200 1515.90 1515.12 1521.30 1521.27 1520.84 1520.96 1522.27 1522.69 Kor 10 How 14 1410.17 1414,40 1524.10 1411.35 1521.90 1522.31

Buba might make a move on rates today after lowering ths repo by 2 basis points to 3.98

per cent yesterday. MILAN put in a late spurt. raversing early losses, in largely technical activity on the last day of the monthly account. The Comit index registered a 6.17 decline to 561.07 but the real-tima Mibtel index picked up from a low of 8.914 to finish 49 higher at 9,055. Turnover of around L700m was

twice the level of recent days. Olivetti receded L17 to L1,184 in a downbeat response to the cost of its planned joint venture with France Telecom to build up the country's second telecommunications network. Telecom Italia declined L47 to L2.280.

Among the banks BCI fell LA7 to L3.050 as the managing director said that he would examine any request to belp

There were hopes that the recapitalise the struggling Banco di Napoli. The latter

rose L17 to L815. ZURICH fell prey to the weak dollar and the SMI index eased 8.2 to 3,124.8. SMH, the watchmaker, fell SFr16 to SFr662 after UBS and

Bank Julius Baer lowered their profits estimates. UBS noted that the strong Swiss franc and the continued sluggish European economy were having a negative influence. Holderbank finished SFr1

better at SFr851, off a day's high of SFr868 after the chief executive sought to calm dilution worries, which arose after the announcement of the planned capital increase.

Shares to Berner Holding medium sized insurer of which Germany's Allianz bolds 38 per cent, advanced SFr45 to SFr1.285. Analysts noted that ona Zurich based bank was a strong buyer when the shares

to 3,158.98 as Reliance moved

TAIPEI saw an early rebound reversed to finish

lower on further worries of a

split in the ruling Nationalist

party ahead of next month's

legislative elections. The

weighted index lost 22.27 at

SYDNEY was weak on cau

tion over the US budget

impasse and concerns at home

about a labour dispute at CRA.

The All Ordinaries index ended

CRA fell 26 cents or 1.3 per

cent to A\$20.62 after the Aus-

tralian council of trade unions

called a seven-day nationwide

BANGKOK declined to its

lowest level since April 27 after

coal strike from Tuesday.

14.3 lower at 2,110.30.

4,608.70, off a high of 4,661.14.

up Rs5.80 to Rs243.50.

dipped to SFr1,220, prompting speculation that Allianz was increasing its stake. AMSTERDAM saw some

cyclicals pressured as switching into the financial sector continued. The AEX index made 0.19 to 459.01.

Banks and insurers outperformed the index as ING moved ahead F11.70 to FL 100 and Aegon appreciated Fl 2.10 to F1 64.90. -

This was countered by sell-ing in Philips, which slipped F11.40 to F158.30, and its Polygram unit; which suffered a fall of F13.50 to F192.30.

Nutrucia lost Fl 3.30 to Fl 114 as Unigate, of the UK, con firmed it was selling its stake. HELSINKI took its cue from Stockholm where Ericsson's results boosted the shares of Nokia, up FM2 at FM238. The Hex index rose 5.83 to 1.871.98 in turnover of FM315.6m.

OSLO was excited by a flurry of merger activity in the ship-ping sector, but the Total index retreated 3.44 to 701.11 as trade was generally muted elsewhere. Hatsland Nycomed, auspended NKr2.50 off at NKr178.50, announced that it had called off a merger with Ivax.

Written and edited by Michael Morgan and John Pitt

further worries about the mar-

17.76 at 1.175.09 in thin turn-

over of Bts.2bn, with recent

poor third-querter results from

some leading companies

JAKARTA dropped 2.1 per

cent on further heavy selling pressure from local threstors,

the composite Index ending

Telkom, which made its

debut on Monday, retreated

Rp50 to end back at its IPO

MANUA remained on the

downward path for the fifth

straight day and the composite

index closed 25.15 lower at

2.315.26 on worries about a

gloomy economic outlook.

adding to the pressure.

9.77 weaker at 459.52.

price of Rp2,050.

The SET thdex finished down

ket's outlook.

Mexico ponders rise in rates

Mexico City was little changed in late morning trade following a further fall in the peso and a lower than expected rise in domestic interest rates. The IPC index was 9.74 points up at 2,251.27. Volume was a thin 1.6m shares,

Traders said investors were selling dollarpriced Mexican ADRs on Wall Street and buying cheaper local shares following an early drop in the peso. Telmex's ADR, for example, was off \$1/4 at \$25% while the local L share was ahead 0.8

Some investors were also buying shares fol-

the benchmark 28-day Cetes, which was much

lower than expected. BUENOS AIRES was encouraged by a government plan billed as "the second state reform" by President Carlos Menem. The Merval index put on 3.09 at 398.32, tracking an early rise in Argentine Brady bonds. Mr Menem announced late on Tuesday a cost-cutting programme that could shave as much as \$1.5bn off the 1996 budget. Analysts said the announcements sealed a political truce between Mr Menem and Mr Domingo

1,050.86

1,257,38

298.40 105.32 105.07

382.09 188.11 276.18 715.12 110.92

188.85 3,131.58

Cavallo, the economy minister. lowing a 575 basis-point rise to 59.99 per cent in São Paulo was closed for a national holiday.

tive stocks came under pressure in Tokyo and the market finished lower after quiet, range-bound trade, Reuter

index eased 0.04 to 1,195.89. had generally stayed sidelined ahead of their book-closing at the end of December, took profits in higher priced high-technology issues after falls in

which were at the core of

Kyocera lost Y250 at Y7,720, Advantest Y190 at Y5,410,

at Y21,200 dne to concern about its \$1.8bn deal last week to acquire Ziff-Davis Publishing, of the US, and the effect of Softbank's new share issues on the supply-demand balance. Benesse, a correspondence education and publishing comany which was listed on Octo

Roundup

tronics, and continuing worries over the investigation into

Decline in high-tech sector pressures Nikkei

than expected full-year profits,

rose 35 cents to M\$9.25 as

investors concentrated on

expectations of improved earn-

HONG KONG made modest

gains in listless trade as the

market continued to seek

direction. The Hang Seng

index closed 24.01 higher at

Among active stocks, HSBC

jumped HK\$1.50 to HK\$110.50,

Hutchison gained 10 cents to

HK\$41.80 and Cheung Kong

advanced 50 cents to HK\$42.50.

shaky start, helped by heavy

short-covering of positions in

Reliance, after problems over

duplicate shares prompted the

stock exchange authorities to

suspend trading in the stock

BOMBAY recovered from a

9.431.38 in HK\$2.7bm turnover

ings for the 1995-96 year.

High-technology and specula-

outnumbered gains by 625 to 345 and 198 issues were unchanged. The Topix index

Brokers said buying through the Big Four securities houses, supposedly on behalf of public funds, emerged in early after-noon trade, supporting indices and discouraging active selling from dealers and foreigners.

Kyocera and Advantest,

Fujitsu Y10 at Y1.160, NEC Y60

an apparent suicide attempt by sent SEOUL lower. Tenaga, which posted lower BSE 30-share index rose 20.19 an indebted investor sparked

Tokyo

The 225-share Nikkei average was finally 119.77 down at 17.682.74 after fluctuating between 17,655.34 and 17,882.82. in volume estimated at 360m shares, against Monday's 297m. On the first section, declines

slipped 9.10 to 1.411.67 and the Nikkel 300 shed L89 to 284.07. In London the ISE/Nikkei 50 Dealers sold off speculative shares, while foreigners, who

recent rises, came under sell-ing pressure along with other major electrical stocks.

at Y1,290, Oki Y25 at Y890 and Toshiba Y17 at Y720. Softbank ended Y1,800 down

ber 26, continued to slide, los-ing Y500 at Y14,000.

A sharp fall in Samsung Elec-

I need a couple of raincoats cleaned overnight."



Say the word, and our valets will clean and deliver your clothing by morning. If it's wrinkled, they'll press it with equal dispatch. We will polish your shoes with a virtuoso's touch, and it need be, even provide new laces-all with our compliments. And our room service chefs will ensure your breakfast arrives well before your 5:30 a.m. FOUR SEASONS HOTELS nothing less. For reservations, phone your travel counsellor or call us toll free. FOUR SEASONS - RECENT BOTELS AND RESORTS

Four Seasons - Regent. Defining the art of service at 40 hotels in 19 countries

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189.88 191.59
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150.30 150.30
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IN THIS SURVEY Diseaser round-up: the colleges of Barings Bank in February was the latest in a

Regulation: losses have also prompted several initiatives to improve risk

• Futures and options dethanges: there has been a slow but steady convergence between the over the counter

DERIVATIVES

Evolution in the shadow of disaster

After a series of financial losses, dealers in derivatives have become more cautious. They are shifting from the fast track nto a slower and safer lane, says Richard Lapper

ankers may be reluctant to development of derivatives in dmit it, bot the derivatives narket continues to evolve in he shadow of disaster.

After the collapse of Barings Bank in February under the weight of £860m of derivatives losses, regulation is one obvious preoccupation. But the Barings debacle - as well as a string of other highly-poblicised losses - is also prompting broader changes, A new emphasis on lower-

margin, safety-first products, is emerging. As one dealer puts it: "As the years go by it is becoming more and more like investment banking. It is oo longer the wild west frontier it was in 1990."

By bringing the risks faced by banks trading in international markets into sharp focus, the collapse of Barings has prompted a number of regulatory moves. During the summer, for example, regulators from more than a dozen countries agreed to increase information flows between the world's futures and ontions exchanges and the exchanges independent initiative.

At the same time, the losses have given a new urgency to efforts by banks and securities bouses to forge their own increasingly sophisticated risk management systems, helping them monitor and control their exposures to adverse movements in the stock, bood and currency markets - so-called

These efforts have been reinforced by international initlatives from bank and securities regulators. The Basic Committee of bank regulators, for example, agreed in April to allow banks to use their own value at risk" computer models which assess the risks arising from market volatility.

other ways. Most obviously, the losses bave made customers and banks more averse to risk, leading to a slowdown in

"You talk to mutual fund managers," says Jerry Del Missier, head of interest rate and currency derivatives in Europe at Bankers Trust in London. "They'll tell you they are getting calls daily from their clients asking them whether they have any derivatives in their portfolio. They are steering away from doing transactions because of this climate."

The derivatives market is becoming more like investment banking. It is no longer a wild west frontier

"There is a lot of antipathy to more complex structures. Anything which is other than plain vanilla seems to ring warning bells," says Ian Garrisoo, bead of UK derivatives marketing at Société Générale in London.

At the same time senior managers at banks and securities bouses bave reined in derivatives traders, subjecting them to tighter limits in relation to the amount of exposure they are allowed to take on to their books. The growth of trading volumes at both the exchanges and in the OTC market - especially in the most popular interest rate contracts - has slowed down to

some extent. After years of rapid expan-Calamity is also shaping the sion, the number of financial

futures and options contracts traded in the first half of 1995 was 581.5m compared with 502m in the same period last year, for example.

Figures for over-the-counter dealings show a aimilar pattern. According to estimates by Swaps Monitor, a specialist publication, reveoues from OTC derivatives at dealers headquartered in the US increased to \$1.3bn in the second quarter of 1995. This was still some \$600m less than the \$1.9bo achieved in the first three months of 1994.

More importantly, dealers report a shift in the type of business being transacted, with a marked decline in interest in the highly leveraged structures which proved popular during 1992, 1993 and early 1994 and which in some cases provided rates of return for dealers of more than 30 per

"You have seen a shift away from high-margin towards low-margin transactions," says Paul Spraos, the publisher of Swaps Monitor. "In ootional terms, the volume of business written in 1995 is clearly greater than it was in 1993 but the business mix has shifted towards low-margin transac-

As a result of these trends and in response to the greater interest in risk management and risk control - bankers and securities dealers are putting greater emphasis on the way in which derivatives can protect buyers against sudden variations in interest or currency rates rather than enhance This shift is most apparent

in the kind of over-the-counter interest rate products sold this year. Patb-dependent techniques, which tie a return to the nath taken hy an interest or exchange rate, are being principal amount.



used to reduce the cost of interest rate caps, making the. product more flexible and cost-effective.

Barriers, which make an option vanish if rates go up above or down below a certain pre-agreed limit, allow dealers to tailor protection more precisely and more cheaply. And although products allowing buyers to enhance yields have not disappeared, they are being structured more conserva-

David Brown, vice-president

at Chase Manhattan, says that "almost all yield enhancement products require principal guarantees" (where the investor does not risk any of the principal committed). By contrast; between 1992 and 1994 a period identified by dealers as the beyday of the interest rate market - corporate buyers sometimes risked not merely their interest earnings, but also the principal and sometimes even a multiple of this

If a deal went right an investor could earn many times what he would have earned from a straightforward investment. If it went wrong the same investor could become bankrupt. "It was the roulette night," says one dealer. version of derivatives," says Paul Miron, head of European.

peared - what we have now is the premium bond version." From the banks' point of view these products are no less complex than the more highlyleveraged varieties sold previously, but competition is mak-

ing business tougher. Many more banks are following the pioneers of the US and Swiss investment banks into the derivatives market. This year has seen the expensive recruitment of a number of highly specialised derivatives technicians and traders. The increasing availability of computer power and computer expertise is adding to the pres-sures by sbortening lead times

derivative trading at Chase

Manhattan, "This has disap-

on products and shrinking margins. Five years ago you had six to nine months on your own. Now if you have a new product it will end up on your competitor's desk within a fort-

Dealers report that margins on complex swaps transactions have fallen from about 25 basis points to two basis points within the past two years.

"Certainly in more competitive markets margins have been absolutely crushed," says James Orbell, director at Credit Sulsse Financial Prod-

The slowdown in turnover has increased dealing costs in the exchange-traded and OTC markets. Having built up specialist teams during the bull markets, banks and securities houses are now faced with

over-capacity.

Derivatives specialists are now attempting to find new products which will deliver the same margins achieved in the interest rate market of 1992 to Proffee Matif

 Bouty derivatives: their bolodistrity is growing
 Credit derivatives: banks are stepping up their efforts in this letest area of

irabvetton Grandov derive volatility has triggered rapid

Frolife: Matajata
Composities: ferners
prest soon face up to the
challenge of futures.
Emerging materis: the
flow of peptial has stowed.
Fishall derivatives: increas and options are becoming

percof everyday life Page They perclude; specialists are inventor to engineer a resh range of sometive products. If Managed Numes: market uncertainty is prompting the permater of investment.

semble profit of investment structures: Page of the profit Deen a more difficult year.

Blisk management banks are investing to new systems.

Profilet First Page 8

From ING Futures & Case study, Chas

Wanhetten Private Bank

Technology: keyed up for

Editorial production: Roy Terry













Master the detail. Manage the risk.

has not been successful.

Although growth in the equity

and foreign exchange markets has been relatively good, mar-

gins in both areas are tight.

A number of banks have

invested beavily in credit

derivatives - but interest has

yet to take off to any apprecia-

ble extent. In some quarters

there are still hopes that insur-

ance derivatives offer unparal-

lelled opportunities for growth,

although again there has been

only modest volume on the

exchanges and only a scattered

few deals on the over-the-

and options exchanges are

resigned to the fact that - in

the words of one exchange executive - "the great period" of contract development for

financial futures is probably

over". It seems possible that

the OTC dealers, too, may have

to accommodate that reality.

adjusting to life in a slower -

but hopefully safer - lane.

Executives at the futures

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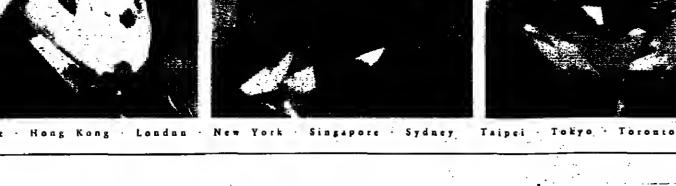
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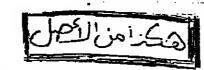
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Global Risk Management







The signs that spell danger

Several big-figure financial losses have resulted in a more cautious approach

To the City's "rocket scientists" and the industry's finance directors, derivatives may seem the alchemy of modero finance, but to the average punter, they spell disaster.

A catalogue of big-figure losses has been topped by the collapse of Barings, Britain's oldest merchant bank.

Little wonder then that the unbridled enthusiasm in the mid-1980s for the opportunities offered by manipulating existing financial instruments has been tempered by a wariness of the potentially dangerous financial devices.

Judging by past experience, disaster lcoms in the derivatives market if users slip down one or more of three primrose

Overconfidence: years of bumper returns or reliable markets bave lured institutions into making assumptions about sure-fire investments. But even the most bankable dealers (Nick Leeson) and stolid markets (German Bunds) can prove unpredictable.

Anthony Belchambers, chief executive at the Futures and Options Association, says one thing most trading disasters have in common is that "often. corporate greed is involved to some degree - companies trying to increase their bottomline earnings by using leveraged products".

Loose control: a symptom of overconfidence, or just bad management, inadequate monitoring procedures in derivatives dealing can quickly mean that small losses ballooning out of control.

Recent financial disasters, and not all of them have been in derivatives, have tended to involve some form of unauthorised trading, "If you don't have the right controls in place you can't catch the problem fast enough," says Mr Belchambers.

Ignorance: perhaps the most unforgivable offence, and one that on occasion has been fostered by financial advisers, is

PHILADELPHIA STOCK EXCHANGE

The four most famous failures given below show how even the most established and respected companies can fall foul of the derivatives markets. Barings: in February, Barings went bankrupt, after losses of more than £860m accrued on the Singapore and

Osaka derivatives exchanges. The bank was the victim of its own star trader. Nick Leeson, and the absence of management controls to monitor his activities. Mr Leeson was responsible for both trading and back office records of his deals at Simex, the Singapore exchange.

Between 1992 and 1995, he built up positions in Nikkei 225 futures and options contracts. which in the early years proved highly profitable for Barings.

In the seven months to July 1994. Barings proprietary trading activities in Singapore generated a profit of \$30.7m, equivalent to roughly a fifth of the entire group's profit for the previous year.

One speciality was selling put and call options on the Nikkei, an instrument known as a straddle which bets against the volatility of the market

During 1994, the markets performed reasonably well for Leeson, with the Nikkei contracts staying within a narrow

But in early 1995, the combination of the Kobe earthquake and a turn in investor sentiment against Japanese markets drove the Nikkei sharply down, resulting in huge losses for Barings.

Soon the margin calls on Leeson's contract had exceeded Barings capital base of £540m and the bank was forced to cease trading.

Its employees were saved by Internationale Nederlanden Group, which bought Barings and took oo its losses for £1. Metallgesellschaft: the German industrial and chemicals trading group, got caught out in 1993, when the markets turned against them on what originally seemed a compara-

tively safe bet. The company sold petrol, diesel and heating oil and other products to customers on fixed signing up for something you price contracts up to 10 years

nead. To protect itself against price movements, it hedged the full amount with futures and over-the-counter swap contracts.

Over the previous 10 years. the market had mostly been in backwardation, when spot prices exceed near futures prices, so bedging in shortdated futures would produce profits as each expiring contract yielded more than it cost.

The opposite to backwardation is a contango, when near futures prices rise above spot prices. This occurred in 1993 upsetting MG's calculations. Every \$1 fall in the oil price meant an extra \$160m of margin payments. Rollover losses approached \$50m a month.

There was some controversy over blame for the losses. After the banks weighed in and wound up the contracts. MG's derivatives dealers claimed that eventually profits on the delivery contracts would have offset the trading losses.

But auditors Wollert-Elmen dorff and CL Treuarbeit, who produced a bulky report on the affair, said the losses were caused by the size of the trading exposure and not by the

Eventually, banks, headed by Deutsche and Oresdner Bank, atepped ln with a DM3.4hm (\$2.43bn at the time) rescue in January last year. The company has sold assets, shed staff and cut costs

and in 1995 has rewon investor favour, promising healthy profits for the year. Procter and Gamble: last year, Procter and Gamble, the US consumer products group, was forced to take a \$102m after-tax charge in the first

quarter, after getting caught short with highly leveraged interest rate swaps as mone tary policy in Germany and the US moved against them. P&G had been using deriva tives instruments, such as swaps, to cut the cost of its

borrowing and manage Its

exposure to interest rate and foreign exchange for years. However, the company took out two highly-leveraged swaps contracts, designed by Bankers Trust to allow PG to swap fixed interest rate loans for floating interest rate loans, on the assumption that US and

German interest rates would

asy Pickings

Regulation: by Laurie Morse

Codes of conduct abound

High-profile losses When interest rates rose this year have sharply, P&G lost money on prompted several initiatives for reform

the contracts, which they bave

since said were inconsistent

with the company's internal

policy on the use of deriva-

P&G quickly turned on

Bankers Trust, claiming they

had been misled, and in the

latest development in what has

of derivatives court cases, filed

a complaint against Bankers

Trust under the US's anti-rack-

the House of Lords ruled that

local authorities did not have

the power to enter into swaps

The London borough entered

the sterling interest rate swaps

market on December 1, 1983.

Council finance officers had

visited the London Interna-

tional Financial Futures

Exchange where the idea of

using swaps to reduce the sen-

sitivity of the council's borrow-

ings to interest rate fluctua-

An independent inquiry in

1991, however, showed that

such was the level of the user's

understanding, that the leader

of the council and the finance

department were not clear

whether they were interested

in futures or options transac-

The council's activities in

the money markets intensified

in May 1987 when it began to

become involved in swap

options and other complex

transactions, eventually total-

Despite the volume of con-

tracts and the size of the risk,

there was never any monitor-

ing system established to track

the performance and possible

dangers of their derivatives

Eventually, the council got

caught out on interest rates

moving against the assump-

swaps contracts.

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tions that lay behind their

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barely understood.

come the most acrimonious

High-profile losses linked to derivatives transactions have kept financial journalists busy during the past 18 months, and have left financial regulators puzzling over bow best to protect end-users of risk management products, and how even to protect derivatives dealers from themselves.

Hammersmith and Fulham: the London local authority, ran Although none of the past year'a high-profile derivatives up huge losses on derivatives contracts in the 1980s, as counlosses - Barings, Metaligesell-schaft, or Orange County - has ciliors and council workers succumbed to the advice of resulted in a systemic crisis, city brokers entering a comthey have rekindled regulatory plex financial markat they interest in upgrading standards for derivatives supervi-When it emerged that the contracts were unenforceable.

Forthermore, a landmark fraud settlement in the US involving derivatives daaler Bankers Trust Securities and its client Gibson Greetings has sent swaps traders and other over-the-counter dealers in tailored instruments scrambling to write voluntary codes of conduct to clarify the rules of their rather obscure same.

A change in legislative climate in Washington, with the new Republican Congress, has headed off any additional legal restrictions to derivatives trading in the US. At the same time, established regulatory agencies have taken the opportunity to expand their reach into derivatives supervision through disciplinary rulings.

The demise early this year of the UK bank Barings in the wake of unsupervised futures dealings in Asia, and a similar debacle last year that brought German industrial giant Metallgesellschaft to near bankruptcy have prompted a raft of international reform ini-

"Barings really made people consider the whole area of systemic risk," notes Mary Schapiro, chairman of the Commod-Futures Trading mission (CFTC), the US's chief derivatives regulator.

The fact that both the Barings and Metallgesellschaft losses were generated on heavily-regulated exchanges shook the complacency of traders, who have historically believed the listed exchanges are far less vulnerable to financial accident than loosely-regulated over-the-counter derivaThe Barlogs crists has inspired a far more open discussion by derivatives regulators around the world about how better to share information and upgrade the quality of supervision so that a similar event might be detected before it becomes a crisis. On the same note, futures trading firms are coming to terms with the reality that differences in hankruptcy laws worldwide result in uneven protections

for customer funds.

ingly. US financial regulators and

One of the most notable supervisory undertakings to follow the Barings crisis has been the Windsor Accord. At a meeting in the UK early this summer, derivatives regulators from several countries agreed to work more closely together

see if the existing supervisory framework could deal with a \$100m default. The exercise, CFTC officials said, exposed some issues that had not been anticipated, and regulations are being upgraded accord-

exchanges are also constructing some "trigger mecha-nisms" that allow wider information sharing between agencies when a company's market position becomes large in relation to its capital, or when that position comprises a significant percentage of open trades in a particular market. Those same triggers will be presected next year to international regulators, to see if they would be useful globally.

HE'S IN CHARGE OF MARKET DISCIPLINE, NOBODY UNDERSTANDS THE MARKET SO WE'RE CONCENTRATING ON THE DISCIPLINE ROLL BENE

to monitor large market exposures by companies that operate in multiple jurisdictions; to co-ordinate regulatory actions when necessary; to make clearer what happens in each Jurisdiction in the case of a trading firm default; and to strive to improve domestic supervision where possible. We've seen a lot of progress

in a number of countries, including Japan, on these ini-tiatives," Ms Schapiro said. Singapore monetary authorities are about to issue derivatives recommendations, and Singapore futures exchange, Simex, recently announced a spate of supervision and enforcement upgrades.

Ms Schapiro's own agency, the CFTC, has upgraded its enforcement staff this year, has received an increase in funding that will be funneled primarily into enforcement actions, and, in an interesting exercise, has conducted "fire drills" at the nation's three

The Barings crisis also pushed forward an informatlon-sbaring agreement between the clearing arms of 19 US securities and futures exchanges, an initiative that over the long run could serve as an early-warning system in the event of a potential large default. Members of the Unified Clearing Group, as it is called, are optimistic that similar information-sharing arrangements will eventually

Meanwhile, the over-thecounter derivatives markets have not escaped controversy, and, similarly, have been swept into a frenzy of voluntary actions in the wake of the US Federal Reserve's administrative agreement with Bankers Trust Securities.

be possible across borders.

In its landmark decision against Bankers Trust last November, the Fed found that the securities firm had lied to lts client, Glbson Greetings Corporation, falled to disclose essential risk information, and

By imposing a hefty fine and requiring an outside evaluation of the company's business practices, the Fed inspired a minor industry for derivatives lawyers intent on protecting dealers from similar liability. "The Fed'a [administrative]

Volumes

giper ce

agreement with Bankers Trust was so extensive and intrusive that it tested the theoretical upward boundary in terms of sales practices," says Henry Hu. a law professor and deriva tives specialist at the University of Texas at Austin. "In I terms of leveraged derivatives 4 transactions, which is what it dealt with, it set some pretty high standards of conduct."

interestingly, the Securities and Exchange Commission this summer also sanctloned Glbson Greetings for Its dealings with Bankers Trust, saying that while the company may have been a victim of fraud. that dld not excuse corporate management from the responsibility of understanding the risk inherent in its Treasury

In direct response to the Bankers Trust/Glbson case. over-the-counter derivatives dealers cobbled together an extensive document of voluntary conduct guldelines. Dubbed Principles and Practices for Wholesale Financial Market Transactions, the code has been criticised for its bias toward the dealer community and its assumption that dealers and end-users enter trades on equal footing as counterparties.

Essentially, the dealer group which drafted the guidelines wanted an iron-clad protection from a client returning after a losing trade and saying it had heen put in an unsuitable transaction. Principles and Practices recommends its subscribers agree in writing, abead of a trade, if one counterparty feels it is relying solely on the other for information or advice.

The guidelines have alarmed some end-users, and the National Association of State Treasurers in the US has warned its members that hy doing business with a company that uses the voluntary pact they may be waiving valuable legal rights.

US end-users are looking more favourably toward a new set of derivatives guidelines now in the draft stage in the UK, sponsored by London's Futures and Options Associa-

■ Futures and options exchanges: by Emma Davey

Slow but steady convergence

The OTC and the exchange-traded markets are now coming together under one umbrella

ft was not so long ago that exchange-traded futures and options were seen as a very distinct market from derivatives, the latter being viewed as the over-the-counter, more complex and highly sector of which few had any undertanding outside the confines of bank dealing rooms.

All that has changed Now the two come under one umbrella and the convergence between the over-the-counter derivatives and the exchangetraded market continues at a slow but steady pace.

From the point of view of exchanges, the start of the decade caused many to be concerned that the hurgeoning business done in swaps and OTC options would deprive them of potential husiness. Moreover, there was a great deal of cynicism and defensive talk from exchanges describing OTC derivatives as a shadowy world of unregulated activity with no watchdog to answer to.

As it became clearer that, rather than swallowing up exchange business, the OTC sector was growing at equal pace and indeed contributing strongly to such markets as Chicago Mercantile Exchange'a (CME) eurodollar futures and outions. exchanges have changed tack. They are now keen to offer market participants the flexibility of OTC products with the security of the exchange environment and clearing house mechanism. They are also embracing the knock-on business from OTC transactions which are largely hedged on exchanges.

The first half of this decade

has already seen substantial development in this respect. In the currency sector, for example, CME attempted to satisfy the demands of the foreign exchange derivatives market with its Rolling Spot products, first launched in June 1993. These were designed to reflect the requirements of the foreign exchange swaps market with larger contract sizes and without some of the burdens of transacting in the OTC market.

The Philadelphia Stock Exchange has taken the notion a step further with its United Currency Options Market, (Ucom). Ucom allows trading in up to 110 currency pairs in a more flexible structure than previously existed. These include the usual dollar, yen and large European currencies as well as some smaller ones. such as the Italian lira and Spanish peseta, that are only listed in Philadelphia. Joseph Rizello, executive vice-president of the exchange, predicts that in the future more curren-

as eastern Rurope and China Already, PHLX is setting up relationship with the Hong Kong Futures Exchange to trade Ucom products, a project that should be under way in the first quarter of next year. HKFE, meanwhila, launched its own currency products. Rolling Forex, on November 3, futures contracts on the

cies will be added to reflect the

growing interest in such areas

D-Mark and the yen. Flexible is the key word when it comes to exchangetraded products replicating OTC requirements. In the interest rate sector, these are seen on the Chicago Board of Trade, where Flex (trademark) options contracts can be traded on the US T-bond, 10-yaar

two-year T-note. CBoT also allows the trading of exchange for physicals on all its prod-Basis trading, or exchange

for physicals, are common methods of trading by OTC players. These allow the simultaneous purchase or sale of a bond, for example, in the casb market and offsetting purchase or sale in the futures market. Now, the principle of basis trading is being welcomed and incorporated by others. Liffe in London set up its Basis Trad-ing Facility (BTF) on June 30 to enabla traders to cross trades in the bund futures and casb market. The move has proved a success with an average of more than 2,500 bund contracts traded through BTF daily in October. In Germany, Dentsche Börse launched a similar scheme for its bund and bohl (bundesobligation) futures on October 20.

On the same day as the launch of BTF, Liffe also introduced. Flex options on the FT-SE 100 stock index. This, too, was designed to meet the requirements of the more demanding institutional investor. Since its launch on June 30 to the end of October, the FT-SE 100 Flex option has traded 51,509 contracts.

Liffe'a launch was just the latest in a list of similar devel-

T-note, five-year T-note and Top 10 futures such illions of contracts)* Exchange Chicago Shard of Inde Chicago Marchalle Such 109.7 106.5 71.7 Life. London Name York Me Midf. Parts Condon Metals Exchan 57.0 243 DIB Gamery 23 6

Volumes down in 1995

Friencial futures exchanges in established trading centres such as London, Chicago, and Paris all experienced volume declines in the first half of this year, and pushess continued to lag through

Normber, and pureress continued to significant Normber, and pureress in "emerging" futures markets such as Brezil and Spain saw volume surps this year, led by stock index and interest rate tracing. Brazil's BMSF nucleat London's Life out of its ranking as the world's third busiest futures exchange, while Spain's Meff joined the top 10 rankings for the first time. Ecchanges dealing primarily in commodities, such as the London Metals Exchange, found their business either remained flat or expanded in the first half of the year.

opments hy exchanges initiated in Chicago. Flex (trademark) is a proprietary name belonging to the Chicago Board Options Exchange (CBOE), the first exchange to introduce the concept which allows participants trading exchange contracts to set their own size and delivery specifications. On CBOE, Flex options on the S&P 100 and 500, and Russell 2000 stock indices now account for an average daily dollar value of over \$164.5m. Other exchanges will follow suit, including Soffex in Switzerland, which plans to introduce a flexible option on its SMI stock index next year.

But it is not only in the product development that exchanges are able to service the derivatives industry. As concerns mount over counterparty risk in derivatives, exchanges are also looking at how they may lend their exper-tise in that area to the OTC use in that area to the OTC sector. Already the Swedishbased OM exchange offers a tailor-made clearing service for swaps and other OTC trades in Stockholm and at its London subsidiary OMLX, while in Spain Meff is awaiting regula-tory approval to provide clearing for the Spanish swaps mar-But talk from the OTC sector

itself suggests this is not the level of assistance it requires from exchanges. Rather, with the growth in the amount of swaps business now supported by collateral, the industry is looking to the expertise from exchange clearing houses in the management of that collateral Latest available figures from the International Swaps & Oarlvatives Association (ISOA) suggest that around \$6.9bn of the current replacement value of swaps (totalling \$77.9bn) is collateralised. ISDA expects that level to grow.

It is with this in mind that Chicago's futures exchanges. CMR and CBoT, have planned their services for the OTC sector. CME has developed the Swaps Depository Trust, which is expected to be launched the second quarter of 1996, while the Board of Trade Clearing Corporation (BOTCC) is due to unveil its Hyhrid Instruments Transaction Service (Hits) at around the same time.

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Volumes drop 31 per cent

If 1995 has been an uncertain year for brokers on the world's derivatives exchanges, it has been one of at least equal volatility for Matif, the French financial futures exchange.

In line with many of Its competitor markets, the volumes traded in Paris have been down sharply on 1994. Total volumes ecross all of its products were down 31 per cent during the 10 months to the end of October, with financial options down 40 per cent and futures by 25 per

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There was some compensation from commodities contracts, which rose by 6 per cent in the same period. On futures and options, the market has been boosted slightly since September by market uncertainties in the light of France's domestic political problems. For the full year, market officials estimate everage volumes are likely to be about 25 per cent down on

But the apparent malaise is something which Gérard Pfauwadel, chairman of Matif. takes in his stride. "1995 is not the best year we have ever hed," he says, "But we are in a cycle and we were more privileged in previous Compared with the sharp

years, so it is only fair." exchange and interest rate fluctuations of 1994, 1995 has been much calmer. He is scentical whether reaction to

Of all the political international discussions involving the Matif, none has been more fundamental than the meandering nature of negotiations held between it and the Deutsche Terminborse (DTB), its Frankfurt equivalent. Events over the past few months have radically altered the original plans.

The two bodies originally signed an agreement in December 1993. The aim was to bring the exchanges together, initially by each exchange offering for electronic trading two of the

products of its counterpart. In September 1994, DTB met its side of the bargain by offering the German bond and medium-term bond to traders based in Paris. In line with the accord, Matif was to select two products from a shortlist of four which would be reciprocally offered to Instead, there was

considerable debate and controversy during the spring and summer - not least with voices raised by the Matif locals, who feared losing their market if the open outcry system was displaced by electronic trading.

It culminated in e statement in April that the greement was being subsumed into far broader talks about co-operation between the German and French stock exchanges as well as their derivatives



Strategic global electronic connections

Links have recently been forged between several exchanges, seeking to reach new markets

Alliances between the world's futures and options markets have become increasingly fashionable, as exchanges step up efforts to distribute products more widely. The trend has been highlighted by a number of recent davelopments. Two deals this year have connected the London International Financial Futures and Options Exchange (Liffa) to markets in other time zones.

This week, Liffe concluded an agreement with the Tokyo International Financial Futures Exchange (Tiffe), allowing it to trade Tiffa's three-month euroyen contract in London when trading closes for the day in Tokyo. Earlier this year, Liffe and

the Chicago Board of Trade (CBoT) announced a deal allowing Liffe traders to deal in the US exchange's Treasury bond contracts in the London morning. In turn, Chicago traders will deal in Liffe's bond contracts after the London close. The deal is expected to come into effect next year. If successful, it will allow Liffe to

cessfully in the US, and give fee Sugar and Cocoa Exchange the CBoT improved access to the European market.

Separately, the electronic link-up in the autumn of 1994 between France's Matif and Germany's Deutsche Börse highlights the use of new computer-based trading technologles. The exchanges have agreed to trade a select number of products over e common electronic network and are now looking to expand the agreement to cash equity mar-

In addition, there has been a plethora of other connections. European and US exchanges have made a number of initia tives to link up with smaller hut rapidly growing Asian exchanges, and a number of the world's commodity derivatives exchanges are seeking connections with the bigger financial markets. As well as its link with the

pore exchange, which is already tied to the Chicago Mercantile Exchange (CME) in one of the most successful exchange link-ups ■ Separately, both Liffe and the CBoT are also involved in

talks with the London Com-

modity Exchange (LCE), which

CBoT and Tiffe. Liffe also has

links with Simex, the Singa-

and the International Petroleum Exchange.

■ The New York Mercantile Exchange's tle-up with the Sydney Futures Exchange will allow Sydney brokers to trade electronically Nymex's oil and natural gas contracts during the Australian day, while the Philadelphia Stock Exchange has a link with the Hong Kong Futures Exchange.

The connections are happening for a variety of reasons. The world's largest investment banks and securities houses which own and control a numher of exchanges - are tending to exert greater influence, and demanding much greater co-operation between the markets. These banks are increasingly offering integrated global services to their customers, ranging from trading to settlement and clearing activities. With banks and investors taking an integrated approach to financial markets, the tradi-tional lines dividing different kinds of commodity exchange and financial markets are seen as increasingly artificial.

At the same time, with volumes falling and costs rising. dealers are becoming conscious of the need to make economies The number of financial futures and options contracts

totalled 581.5m compared with 602m in the same period last year, for example. "The rates are not looking as attractive as they were," says Alex Cooper, director at Crédit Lyonnaise Rouse in London. The major players have all the infrastructure in place but are not operating at full capacity and want to reduce costs," he says.

inks are also favoured because of the rising concern about the security of the derivatives markets in the wake of the collapse of Barings Bank in February. Investigations toto the Barings debacle have uncovered low levels of co-operation between the Osaka and Simex exchanges, where the bank's losses wer incurred. Initiatives hy both regulators and the exchanges themselves following the disaster have emphasised the importance of information sharing, reinforcing the economic arguments supporting arrangements such as mntual offset hetween clearing houses. One example is that clearing houses acting for 19 US exchanges recently agreed to exchange more information.

The move towards alliances also reflects the maturity of the domestic markets for financial derivatives, such as bond

past 20 years, sales of the world's higgest financial contracts have grown. Since its formation in 1982, Liffe has enjoyed annual compound growth of 50 per cent a year in the volume of contracts traded.

But it is widely accepted within the industry that growth at this pace cannot continue. Philip Bruce, managing director, strategic husiness development at Liffe, says: "The great period of contract development of financial futures is probably over."

The costs of marketing and researching new products is rising and the exchanges are faced with an increasingly expensive hurden of regulation, which is inhibiting their ability or willingness to devote scarce resources to product development. Mr Cooper says the "immediate product range has been exhausted so product sharing arrangements are in the ascendant. There is likely to be a dearth of new products until the markets of China and Russia and eastern Europc come on stream". As a result, exchanges are

eager to examine channels through which they can sell more of their existing products or earn a commission hy sell-ing products listed by other exchanges. "in the pest.

nues and profits being generated by the development of new products," says Mr Bruce. "Now that new product development has dropped off, exchange members and the exchanges themselves are looking to grow through wider distribution."

in addition, the alliances, reflect an intensification of competition hetween exchanges. In Europe, Lifie and Germany's DTB have battled for control of the continent's higgest bond futures contract. So far, Liffe has been successful, retaining a market share of some 70 per cent, but the commercial battle could hegin to assume another dimension as the exchanges respective alliances develop. Liffe's own strategic initiatives linking It with exchanges in two different time zones - was launched following its decision to reject participation in

increasingly, different trading philosophies are influencing alliances, too. "People now accept that there is competition between exchanges - prevlously they didn't think in those terms. This reflects a more hard-headed commercial approach," says Ruben Lee, the director of the Oxford Finance



the Barings crisis, Proctor & Gamble and other cases fouching the problems with derivatives, have had e serious effect, but admits "they have not helped". Despite his apparent insouciance, Mr Plauwadel

concedes that continued lower levels of activity in the long term would inevitably affect the Matif, which derives its income from commissions on the contracts it trades, and which Is committed to a number of ambitious investment

But far more important fluctuations have touched the exchange in Paris from the start of this year. In January, "locals" - the negotiateurs inclinéduels de parquet : effectively went on strike for ebout a week in a demonstration about changes to fees and broader issues concerning their link to

However, Matif achieved e significant victory in March when the UK Treasury finally gave approval for tho organisation to become a recognised investment exchange", more than two years after it had originally applied. That may turn out to be something of a hollow victory, particularly given that the European investment services directive will make such recognition obligatory once it is implemented, which is theoretically at the start of



Gerard Pinuwadek =1995 has not on the best year"

markets. Mr Pfauwadel is keen to stress how history has changed since the original agreement: At the time of the agreement, the two national derivatives exchanges were indeper Since then, the DTB has become an integral part of the Frankfurt stock exchange.

Equally, the discussions were taking place against a backdrop of the possibility of monetary union by 1997. This summer, EU ministers at the Cannes summit eased off much of the pressure by formally agreeing that the union would take place at the

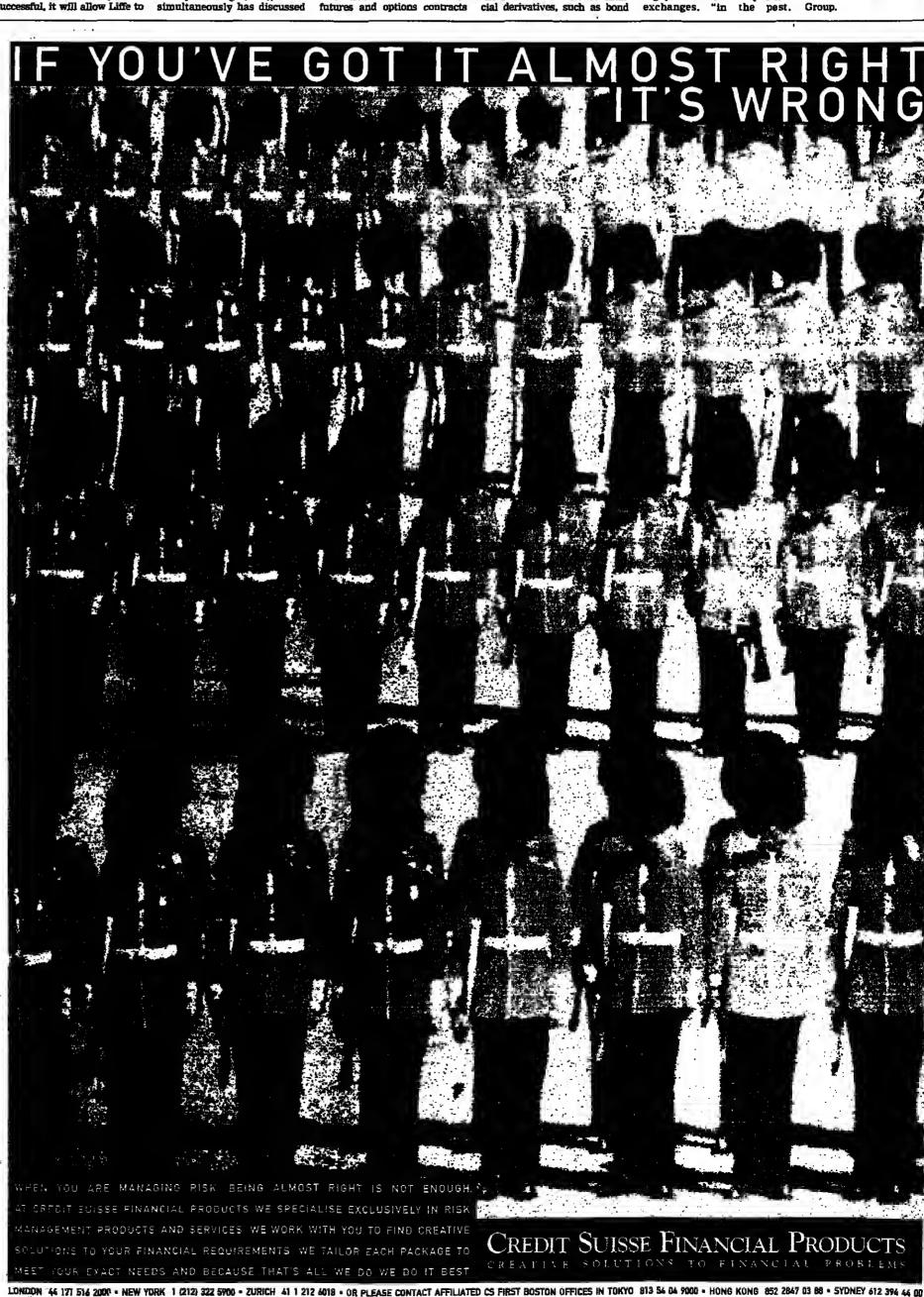
earliest in 1999. Some observers believed the exchanges' decision for e much wider agreement was a stalling action which would scupper any plans for eventual co-operation. However, at the start of November the Paris and Frankfurt combined organisations announced an

outline accord. In principle, the German exchanges will provide the technology for electronic trading on the Paris and Frankfurt derivatives markets, while the French stock exchange will provide the systems in both markets for equities. A final decision is to be made by the end of March next year, after which the chrice of which derivatives contracts will be offered is due to follow.

A number of uncertainties remain. Frankfurt is not yet formally committed to using the French system and is considering alternatives. Opposition will also remain to the shift towards electronic trading of Matif. and fears that this may delocalise the market.

But Mr Pfauwadel is confident and stresses the importance of continuing to find new products and new ways to innovate in the future. Matif is poised to make the decision on whether to launch a new commodities futures product for wheat, following the relative success of its rape seed market

Andrew Jack and Richard Lapper



Retail investors are using equity derivatives in larger amounts than ever before

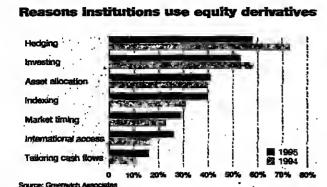
The market for equity derivatives has become a forum for apparent paradoxes. Public bostility to the dangers of derivatives, highlighted in such events as the Barings collanse, has been matched by an explosion in the sales of retail equity derivative products.

Derivatives houses, trying to drum up demaod for their products for asset allocation and hedging, are, at the same time, cautioning about invest-ment in equity derivatives as a separate asset class.

And among professional investors, a growing sophistication and understanding of derivatives, rather than encouraging the use of more complex instruments, has seen users go "back to basics" seeking "plain vanilla" products.

Ricardo Pascoe, managing director and head of internatlonal equities at Bankers Trust International in London, says: "There has oever been such an awareness among the public about derivatives, and people are viewing derivatives in a negative sense. Yet, at the same time retail investors are using equity derivatives in larger amounts than ever before. The same person reads the paper in the morning and says they should outlaw derivatives, then, at lunch time, might go over to his building society and buy a Footslelinked note. It is such a paradox." He adds: "There has been tremendous growth for us in the retail derivatives market. It is a small percentage of our overall business - 10 per cent to 15 per cent - but we can see it growing to a third of our derivatives business in the

in the institutional level, Patrick Whalen, managing director in charge of equity derivatives at Morgan Stanley in London, says in the "equificatioo" of Europe, the switch from debt securities to equitles, he detects a growing use of equity futures contracts in restructuring, transition of portfolios and changes in asset



allocation. "The growth in equity markets is really going to come in through the equity derivative products," he main-

And a survey of institutional investors by Greenwich Associates confirms that the use of equity derivatives is growing. The Greenwich, Connecticutbased consultants found that not only has trading grown by 20 per cent over the past year, hut the number of users has grown by the same amount. Greenwich Associates found that institutions using equity

derivatives for investment purposes has declined considera-However, their use for enhancing returns, locking in gains, for example at the year end, and gaining international

exposure (such as entering restricted emerging markets) all rose significantly. Mr Whalen stresses that the use of equity derivatives as a tool to help execute investment

strategies should not be confused with investment in

OTC \$110bn

Equity derivatives

equity derivatives as a separate asset class.

"The concept of an equity derivatives sales person to me is a bit in error because, for the most part, these are implementation tools: It is a way of doing your business better. they are for risk management, efficient execution and better implementation. They are not necessarily a separate asset

That said, Bankers Trust put their faith in an employee stock ownership scheme (Esop) which it devised in 1993 that uses equity derivatives to engiasset ownership, in spite of fruitlass government attempts to sell the idea of share ownership in privatised companies to employees.

Employees may be reluctant to take up offers of, often beavily discounted, shares when the companies they work for are privatised.

Besides lacking the funds, they may fear what Bankers Trust's Mr Pascoe calls "the double jeopardy issue". "Imagine that you buy shares in the company you work for with a large proportion of your personal savings. If the company ends up having trouble it is possible that you might lose your position and your

During the privatisation of Rhone-Poulenc, the French Treasury's 20 per cent discount on shares offered to employees was widely accepted.

Bankers Trust proposed that instead of dropping the price of the shares, which still exposed the purchasers to potential loss if the market fell, the discount could be used to buy a bedge with the risk transferred to ■ Credit derivatives: by Antonia Sharpe

Vanilla the flavour of the times Latest tool to manage risks

This product is Bankars Trust put a floor heading for the same degree of growth as teed by Bankers Trust, meant the shares could be used as interest-rate derivatives

under the share price. The pro-tection of the capital, guaran-

Mr Pascoe explains: "The

share. Bankers Trust guaranteed that be would get his

money back on that one share

French bank to lend him the

one and getting the economic

upside of 10 and no downside,"

Esops have been used suc-

cessfully in other privatisa-

tions in France Mr Pascoe

does not see their use confined

to privatisations but with some

\$200bn worth of privatisations

due over in the next five years

Despite the obvious benefits

of such a scheme to the end

users there are those in the

derivatives business who admit privately that the derivatives

industry went through a period

where it was driven by product

creation rather than by inves-

It is something of an irony

houses are making earnest

efforts to educate end users,

those benefiting from the edu-cation are going "back to

David Baker, director, equity

derivatives Société Générale In

London, says: "In the market

for over-the-counter (OTC)

structured products we are see-

ing the need for simpler prod-

ucts. The demand for some-

thing with bells and whistles

has become smaller. When peo-

ple do these trades they tend to

be less complicated. People

realise that you can have the

same economic effect through

a simpler overlay of options so

there is no need to use compli-

worldwide there is potential.

Mr Pascoe says.

collateral for a loan.

As growth in the derivatives employee would pay for one market slows and competition becomes more intense, banks are under pressure to develop as well as on nine additional new prodocts to stay ahead of their rivals. Over the past 12 to 18 months, one of the latest sbares. We arranged for a innovations attracting attention is credit derivatives.

money to buy the other fine shares. Again Bankers Trust The origins of credit deriva-tives lie with the banks themguaranteed that the value of the shares would be enough to selves, which devised them as repay loan. This meant tha a tool to manage their own rench bank did not have to investigate the creditworthi-ness of each individual." credit risks. It has been a logical step to market the products The cost to the employee was to their clients. surrendering any increase in

Martin Kannengieser, vice-president in credit derivathe market value on four of the tives at Credit Suisse Financial 10 shares. "They end up buying Products in London, says that although credit derivatives upside of six, 60 per cent of the encompass a wide variety of products, the most viable has en the credit default option.

This option protects the buyer against the default of a specific corporate or sovereign credit or credits. The life of the option can be for one month or for 10 years, though the average maturity is usually between three and five years.

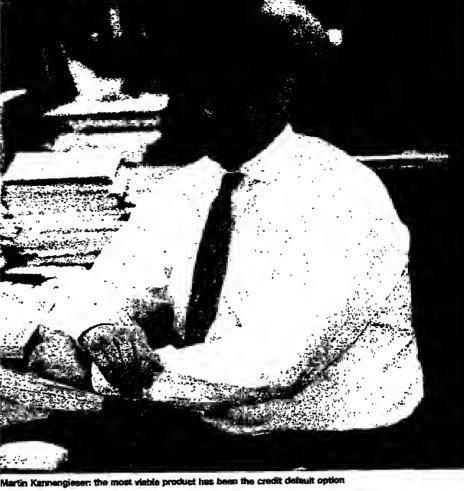
For example, such an option might be taken out hy a company which expects to be paid \$20m in three years' time when it completes a project in a foreign country. However, since the country in question has a patchy record on payments it wants insurance in the event that now that derivatives of a default.

The company taking out the option will pay an annual or semi-annual payment to the bank which has structured the option. In the event of a default, or a breach of other criteria agreed at the start of the option, the company will receive a payment.

The bank arranging the option will use outstanding bonds issued by the country concerned as a benchmark for setting the payment which will be made by the company. However, since the bank will be hedging its own position by issuing bonds of a similar amount to investors, the company will have to pay a pre-mium to the yield on the outstanding bonds to attract buyers for the bonds backing the transaction.

In the event of a default, there are various ways in which a payment can be made. Says so contracts lead to a payment of 100 per cent of the notional amount though the cost of such an option will be higher than one which pays out only

70 per cent, for example. Another structure which is often used is based on the postdefault reference price of a reference security, and the payout would be equal to the difference between par and the reference price. This type of option is usually cheaper than an option with a fixed payout.



It is also possible for the buyer of the option to give the bank the rights to the contract so that it can recover monies through the courts. Such an agreement would also lower the cost of the option.

In the case of hanks using the ontions as a risk management tool, Mr Kannengieser says one of the main benefits of the product is that it allows banks to stay within their internal credit limits for specific countries, counterparties and credit ratings. Latin America or other

emerging markets usually spring to mind when bankers talk about excessive credit exposure and many transactions using credit derivatives are simed at such credits. However they can also be applied to loans made to borrowers which are generally thought unlikely to default.

used to help banks purchase credit lines," says Mr Kannengieser. For example, if a bank has reached the credit limit set internally for a UK or a Belgian company, it would not be able to make fresh loans or other derivative transactions. By denying its client it could put their banking relationship

To get round this problem, the bank can take ont an option protecting itself against a possible default by the borrower, which has the end result of freeing a new line of

Credit derivatives can also be used to help banks use credit lines which are not taken up by clients due to the lack of a relationship. It is quite usual that banks' credit lines are more diversified than their credit exposure.

For example, a German bank might have heavy exposure to German companies but very little to French companies despite having credit lines in place to lend to such borrowers. It can take out an option which would give it the economic effect of lending to a French company. Similarly, if a bank feels that too many of its loans have the same maturity, it can use credit derivatives to create a maturity pro-

file which is more balanced. It is believed that the decline banking system has led several international lending institutions to consider credit derivatives as a way to reduce their

exposure to Japan. Although credit derivatives are a relatively new product, the profit margins on them are already being eroded by the stiff competition among banks in addition, banks are in competition with insurance companies which offer credit insurance and with government

export agencies which effec-

tively guarantee most of the payment due on a specific proj-

Nevertheless, banks are keen to participate in this market because of its potential to grow. Dipak Rastogi, head of global derivatives at Citicorp, says the inefficiency of pricing credit - because lending institutions have differing views on the same credit - makes this a

perfect area for derivatives. "Credit is a large risk in every economy since each commercial transaction has a credit component unless it is

settled by cash," he says. The notional amount of credit derivative transactions ranges between \$5m and \$20m because of the specific nature of the market. Virtually all the products are designed for endusers so there is no meaningful trading or liquidity.

"It is a very customised marstandardised," says Pat Britt, head of structured swaps at Prebon Yamane, an American inter-dealer broker which specialises in derivative products.

However, in the same way that interest-rate derivatives have grown over the last decade from a niche market to a huge trading market, all the signs are that credit derivatives are heading in the same direction. "In one year we will have made a quantum leap,

■ Currency options: by Graham Bowley

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New breed of exotics thrives

Volatility has made it necessary for banks to develop more

creative ideas Events on the foreign currency

exchanges this year hava combined to trigger rapid growth in the "exotic" over-thecounter currency options mar-

The US dollar's rapid declins to new post-war lows against the Japanese yen earlier this year and the tensions in September surrounding Europe's progress towards a single currency, were among the main reasons why users turned to more sophisticated currency options products for greater protection against increased incertainty and volatility on

While the use of standard "vanilla" products has continued to grow steadily, the greater flexibility and ea use of exotic options, which are tailored more closely to customers' needs than the atandard over-the-counter products, has meant that vanilla products bave been out-

stripped by exotics. And events have been so dra-matic that this year has seen especially rapid growth in a new breed of more structured exotic instruments which combine exotic options as well as vanilla or cash instruments.

"Volatility has created the need for hanks to come up with more creative and tailored ideas," said Sara Sul-livan, head of foreign exchange options marketing for Europe at Chase Manhattan Bank in London. "Demand from customers has been much stronger this year for exotic options they are looking for alterna-

tive and cheaper solutions for coping with uncertainty and volatility, she said.

The first currency options were traded in the US in December 1982. Their use grew throughout the 1980s, largely because of the greater flexibility they offered compared with the underlying cash markets. For the first few years standard over-the-counter vanilla options were used almost

exclusively. But by the end of the 1980s users started to turn to the more exotic options. The use of exotics accelerated rapidly in the early 1990s, helped not least by events such as the 1992 and 1993 crises in the European exchange rate mechanism, which triggered enormous volatility in currency markets. On some estimates, exotic currency options now account for between 10-15 per cent of overall OTC currency

Some of the most popular exotic options used include: M Average rate options, the settlement of which involve an average exchange rate rather than a single spot rate; Barriers, which bave become especially widely used; Binary or digital options,

which involves discontinuous Basket options which collect together a number of currencles into one basket and which rely on correlation between put and call currencies.

Barrier options have become an especially popular tool for managing foreign exchange risk. They now account, on nates, for around 10 per cent of all currency option business. This growing interest in barriers contrasts with falling demand for aggressively leveraged products.

There are four basic types of barrier options - calls and

puts, each with either a knockout or knock-in feature.

A knock-in barrier option pays nothing at expiry unless it is first "activated" as a result of the underlying exchange rate reaching a certain pre-determined level (the barrier). A knock-out option, on the other hand, begins life as a standard option but is "killed off" if the underlying exchange rate touches the barrier. Because of their uncertain life, barrier options are generally much cheaper than conventional options.

But the move to even more highly structured products this year has seen the increasing use of new types of hedging and trading instruments.

· One of the most popular has been the so-called "forward extra", which is used to hedge underlying cash exposures. It is a combination of a vanilla option and a reverse knock-in barrier option. Another is the "range hinary", which is a derivative of the binary option family and which is generally used as a trading instrumen although it can also have hedg-ing applications when used

with an option. John Wareham, head of global foreign exchange marketing at Merrill Lynch in London, agrees with the view that the currency options market is now characterised by increasing complexity.

He thinks that trading volumes overall reached a peak two years ago. While speculation on the rise or fall of the yen this year has led to some extremely large options trades that have had a profound impact on the underlying cash market, activity overall has declined in the absence of events as cataclysmic as the

In addition, profitability of

the more exotic options has declined as the technology underlying them has become more widely available and more banks have been able to offer the new products to customers. Those instruments considered "exotic" only a few years ago have in time become standard "vanilla" products, freely available in liquid secondary markets.

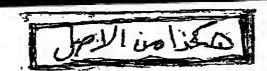
But this decline in profitability and the lack of growth in the market as a whole has meant that banks have looked to increasingly complicated products, which offer customers even more precise hedges

There has been a general rise in the level of complexity but it is becoming increasingly difficult to take it any further,

For Mr Wareham, perbaps the most important innovation over the past 13 months has been the introduction of exotic options tied to emerging mar-

ket currencles While the first currency optiona were traded on exchanges, most of the subsequent growth in the market since the early 1980s has been in Over-the-counter products to such an extent that the OTC market now eclipses the exchange traded market.

There has, however, been attempts recently to breathe new life into the trading of currency options on exchanges Last year, the Philadelphia Stock Exchange, the world's largest currency options exchange, began its United Currency Options Market in an attempt to bring together the benefits of listed exchange trading with the advantages of over-the-counter products, which are customised to meet



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CASE STUDY

Malaysia

Step closer to becoming a well-rounded market

The new Kuala Lumpur Options and Financial Futures Exchange (Kloffe), to be launched next month, will lering Malaysia a step closer to its ambition of becoming a leading financial centre in south east Asia.

Undaunted by the Barings debacle in neighbouring Singapore earlier this year and the bad press and law suits surrounding derivatives worldwide. Majaysia is pressing ahead, hoping that the long planned derivatives appeal of Malaysia's markets and attract more international investors.

"Mainysia has seen the growth in the derivatives markets in other parts of the world and the substantial development of its own capital markets, and decided it needed a derivatives industry to be a well-rounded market, " says John Duggan, Kloffe's chief operating officer. The exchange will open with a futures contract on the Kuaia Lumpur Stock Exchange's Composite index of 100 capital-weighted stocks. followed next year by equity

"Having stock index futures, options on the index and options on individual stocks will increase liquidity of the cash market and allow investors to manage their portfolios and their risks better," says Khairil Anuar Abdullah, a director at Malaysla's Securities Commission, which, together with the finance ministry. regulates and supervises the exchange. "Currently, the only way a fund manager can reduce his exposure is to sell his boldings, in the future, derivatives will allow him to go in and out of the market without selling the underlying shares.

Separately, the Malaysia Monetary Exchange (MME) will start trading with a three-month interest rate future based on the three-month Ruala Lumpur inter-bank offered rate. The exchange also plans to launch currency options. Trading on Kloffe will be

screen-based while open-outery will be used on system is based on that of the German futures exchange DTB. This system is also used by Soffex, the Swiss derivatives exchange. "It has a strong track record," says Mr Duggan, Both exchanges will share one clearing house which they jointly own, the Malaysan Derivatives Clearing House.

"This brings risk management into a single arena and will allow the

Financial Publishing

picture of participants' risk exposure," says Mr Duggan. highlighted the importance of cross-exchange communication." Moreover,

be says, having only one clearing centre represents cost savings for members who will not have to set up separate clearing infrastructures and financial

For the sake of greater transparency, however, members will be required to run separate trading accounts for their own and their clients' positions, "The segregation of bouse accounts and client accounts will prevent the co-mingling of different clients' positions and

Kuala Lumpur, new exchange set

bring additional protection to

the market," says Mr Duggan.

things in its favour, For one,

economic growth above 8 per

market - the region's largest

regional financial centre have

been boosted by a package of

wide-ranging capital market

reforms, announced by the

government in June and

foreign participants.

looking for a bome in

newcomers, and more

south-east Asia," says Mr

Duggan. "MME and Kloffe

flexibility for those who are

already active on the KLSE."

Moreover, "Kloffe will be

unique in that it will be the

only futures exchange in the

Aslan Nations (Asean) to list

bome-grown products, rather

than another country's

securities." says Lee Slang Chin, managing director of

Arab-Malaysian Securities.

Association of South East

an index based on

aimed at ettracting more

Billions of dollars are

Malaysia's seven years of

explosive expansion of a

liquid, diversified stock

in terms of capitalisation.

cent have fuelled the

Moreover, Malaysia's

prospects to become a

Kloffe certainly has a lot of

to open next month

Kloffe could develop an Asean-index future, based on a composite of its neighbours stock markets, or a "Halal" index containing only the shares of Islamically-correct ompanies. However, "all that is a long way off - we have to learn to walk before we can run," says a Kuala Lumpur

Initially, a large number of trades on Kloffe are expected to come from retail investors taking a gamble on the stock market, attracted by the additional leverage and lower cost outlay of derivatives over cash shares,

the securities arm of

banking group.

or stock index.

Malaysia's largest merchant

Singapore's Simex, for

the Japanese Nikkei stock

instance, lists derivatives on

index and foreign currencies.

based on the Singapore dollar

of Kloffe to boost volume in

the underlying stock market.

index future, several offshore

baskets of stocks on the KLSE

in over-the-counter dealings.

"If we can bring that business

on-shore and on to an official

exchange, overall volume

There is even talk that

should increase."

in the absence of e stock

US banks currently trade

Mr Lee expects the creation

"Because of the buge retail penetration of the underlying market, retail could initially make up about two-thirds of volume," says Mr Duggan. But that will probably shift to the more traditional one-third retail, two-thirds institutional balance as retail investors learn that derivatives can be a risky business and institutionals get more involved in the product."

Some speculative trading could also come from proprietary traders at international investmen banks, as well as US-based hedge funds and commodity trading advisers, or CTAs.

"Speculation per se isn't bad - it adds liquidity," says Mr Khairil at the Securities Commission. "If I might paraphrase Keynes: A few bubbles of speculation in a stream of enterprise is to be expected, but not the other way round."

While more widespread hedging of casb positions with derivatives could reduce the trading risks of individual market participants, the volatility of the underlying stock market is unlikely to be significantly dampened by the introduction of the

Conner Middelmann

■ Commodities: by James Harding

Farmers face challenge of futures

The pioneers of derivatives are slow to take up the instruments

available today Farmers are a paradoxical bunch. Renowned for being conservative and averse to change, they work in the riski-est business of all, one that relies on the unpredictable forces of nature.

That combination, cautious instincts in the face of natural risks, made farmers the first users of derivatives.

The tulip bulb bloom in Holland in the 17th century prompted farmers and traders to use options to cope with the volatile markets. More extensively after the 1870s, US cereals farmers developed futures contracts. in recent years, the appeal of

agricultural derivatives should have grown further. Contracts have been adapted to farmers' needs, just as volatile grain prices and currency movements have made insurance more necessary: they

have become more available in

exchanges around the world:

and they bave become increas-

ingly popular with governments keen to reduce expensive and cumbersome price Support programmes.
But even though farmers

were the original frontiersmen of derivatives development, their dogged conservatism has made them slow to take up the increasingly sophisticeted instruments available today. Futures and options trading for the main agricultural commodities from the developed world is at the fringes of the soft commodities markets, dominated by tropical goods, like coffee, cocoa and sugar.

Agricultural futures analysts suggest that this will have to change. Bob Moore, agricultural futures manager at Revco Overseas, eays volatile grain markets, whether because of low stocks, exposure to curreney movements or political interference, will force farmers with decreasing government support to take out some kind

"Any farmer who has seen the price movements we have in the last few years and does not consider some form of options trading is living in the dark ages," be says, suggesting that "in the coming years, the

charged to a farmer'e costs rather like seed, fertiliser or machinery today." Futures contracts offer farmers e pretty effective bedge

against crop failure. Contracts mirror the actual performance of a farmer's crop, generally rising in value as the spot price falls and vice versa. When the real and futures price are taken together, the farmer neither wins nor loses provided he has matched the

size of the two deals exactly. Such use of futures contracts, or alternatively options, which for a small premium give the right to sell at an agreed price, offer insurance. By taking out contracts smaller or bigger than the farmer's underlying business. he can take on risk - only partly insuring his crop or speculating in futures dealing. Whether farmers seek pro-

tection or opportunities for speculation, there are more contracts to choose from and more places to trade. Although the experimental

phase in commodities contracts may have peaked in the early 1990s, there are still new products coming out regularly. In September, the world's options premium will be first citrus futures market

opened in Valencia, giving the farmers of Spain's annual 5m tonnes of citrus fruit a chance to hedge against movements in the Spanish Navel-Navelina orange market

Earlier this year, the Chicago Board of Trade launched the Corn Yield Insurance tool for farmers, grain handlers, and exporters who are vulnerable not just to fluctustions of commodity prices, but also to the size of the crop.

Agricultural commodities also look set to become available in more markets around Michael Hofmann, chief

operations officer of the Deut-sche Borse, said that "agricultural subsidies have been falling away for a number of years now, and it's beginning to really have an impact because there's no other mechanism to offset risk". Reforms to the Common Agricultural Policy. decombing financial support to farmers from production and leaving them with little or no price protection, is fuelling expectations that more European farmers, futures and options laggards in comparison with north American farmers, will deal in derivatives.

At the London Commodity Exchange, where dealing in tropical commodities dwarfs business in the wheat contract, Anthony Rucker, director of operations, says: "The changes to the CAP have removed the certainty of a floor price, creating more need for people to In Canada, the government's

efforts to reduce the burden of farm payments and et the same time offer a means of price protection has resulted in a pilot programme in cattle futures, effectively passing the responsibility of price insur-ance for its beef farmers on to the derivatives markets. And yet, whatever the merits

of improved, farmer-specific contracts, increasingly availeble worldwide and on offer with the government'e blessing, derivatives dealing is something farmers will only undertake rejuctantly.

The very elow growth in the LCE's grain contracts has led tropicals traders to dismiss UK farmers' interest in futures and options. But enthusiastic LCE traders argue that "farmers have always tended to hold on to the product for too long, not really seeming to understand the principles of the market".

■ Emerging markets: by Laurie Morse

Flow of capital slows down

In the wake of the Mexican crisis, strategies have become more conservative

The crists in the Mexican economy and the ensuing volatility of the peso and Mexican stock market sbocked emerging market investors to such an extent that the flow of capital from developed economies into emerging markets during the past year has slowed signif-

Foreign equity investment by developed countries in emerging markets dropped to \$39.9bn in 1994, according to a recent report by Baring Securides, down dramatically from the 1993 record of \$62.4bn.

That trend also flattened interest in emerging market derivatives, although Mexico's economic crisis did underscore the value of sophisticated risk are committed to diversified global portfolios.

Derivatives, be they over-thecounter or listed as futures and options contracts on a formal exchange, are designed to help money managers separate decisions about funding - interest rates, loan duration, and the like - from decisions ebout risk management, which derivatives exchanges involve issues like currency and political stability and

credit quality. In emerging markets, these

investors to alternatively speculete on, or bedge, credit, interest rate, and foreign exchange risks.

In developed economies the use of derivatives is fairly sophisticated, with corporatinely swapping debt and other financial obligations to match investment goals. In developing countries, however, liquidity in these instruments is thin, and clearing and settlement procedures are not yet up to international standards.

Thus, says Daniel Sivolella, co-head of JP Morgan's global emerging markets derivatives group, "emerging markets derivatives are very much a credit play". In other words, traders in these arenas are taking positions as much on the prospect of debt repayment, for example, as on the direction of

reversal, traders say deriva-Latin America, still the largest source of emerging market debt, have become more conservetive. Two years ago the most popular derivatives play in Latin countries was a highly leveraged transaction that profited or lost on the movement in value between a Latin debt or equity instrument and its rough offshore equivalent perhaps a US Treasury bond or US stock index.

Now, after the sbock of the Mexican crisis, traders are

on the relationship between two types of debt with similar credit quality. A epreed between two Mexican bonds, for instance, or between Mexican and Argentine bonds, carries far less risk than inter-regional spreads, albeit with a

smaller potential reward. The "tequilla effect" also dampened interest in leveraged derivatives based on emerging Asian markets. However, two countries, Poland and South

Poland and South Africa are attracting modest interest

Africa, are attracting modest new interest. Investments in both economies offer portfolio diversity, and interest in South In the wake of the Mexican Africa has increased because of new supply availability. Sevcame out in the past quarter, and these debt issues were quickly "swapped" in the derivatives markets. The merger of the commercial and financial rand bas greatly aided derivatives development in South Africa, swaps traders

The viability of derivatives in emerging markets depends to e large extent on government policies - currency convertibility, tax treatments, and the legal framework, or the

enforcement of contracts - all have a significant influence on derivatives use. Even offshore markets are

foreign governments, as the Chicago Mercantile Exchange learned in the 1970s. At that time it had a viable Mexican peso futures contract that provided for physical delivery of pesos. The CME had to stop trading pesos when the Mexican government outlawed peso transfers for futures contract deliveries. Despite that setback, the CME and a number of investment banks believe the potential growth of derivatives use in emerging markets is too great to ignore, and are turning the structural inefficiencles of the local governments to their advantage.

The CME, following the Mexican crisis, persuaded the Mexican government that a viable hedging instrument was essential to the peso's recovery, and was granted permission to futures trading. with physical delivery, in Chicago last April. Volume in that contract is relatively small, but growing steadily.

The exchange is not waiting for similar concessions from enthorities in other emerging markets. Next month it will open an entirely new division for trading futures and options on the currencies, equities, and interest rates of dozens of emerging markets countries. It also intends to offer derivetives based on a variety of

Latin American Brady bonds. The CME's strategy is to offer exposure to market movements in these countries while eliminating local market risks. vulnerable to the vagaries of Its Brazilian real futures and options, launched on November 8, are cash settled to evoid delivery complications, and are denominated in US dollars, so US fund managers do not have

to incur exchange rate risks. William Brodsky, the CME's exchange's emerging market initiative as a sort of supermarket for financial institutions. He thinks money managers will welcome the opportunity to select exposures to dozens of developing economies while dealing in e familiar environment and avoiding the costs of establishing operations, or clearing relationships with each country individually.

The real contracts will test the robustness of this theory, since Sao Paulo's fast-growing futures exchange, the Bolsa de Mercedorias & Futuros already offers global traders a liquid US dollar/real futures

Investment bankers that deal in over-the-counter derivatives are scentical that the CME's emerging markets products will attract the necessary liquidity to make them viable. The exchange'e futures contracts on developed country currencies, like the D-Mark, are dwarfed by the over-thecounter market, and are fast losing their relevancy.

fixed rate achieved in this way

also be a car manufacturer

who offers potential buyers

interest-free finance, which in

effect means it takes on a fixed

interest liability which it can

then bedge in the short ster-

In the UK, Liffe's short-ster-

ling market is at the beart of

the provision of fixed-rate

mortgages. A building society.

for example, will seek to off-

load the fixed-rate liability it

takes on when it provides such

a mortgage for a customer by

swapping It for a floating-rate

liability from a larger bank.

The bank will, in turn, use the

short-sterling market to hedge

its own exposure to interest

rates while it holds the fixed

Since it was set up in 1982

the ehort-sterling market has grown rapidly - a sign that

derivatives are being used

more and more widely for

hedging purposes in the retail

market. While only around

42,000 contracts were traded in

its first year, by the 1994 this

had grown to more than 16m

ling market

rate liability.

on to their customers. It may

■ Retail derivatives: by Graham Bowley

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At the heart of everyday life society, it can then pass the

Many things which people simply take for granted would not be possible without derivatives

Derivatives have long been used by large multinational companies to manage their risks. But these sophisticated financial instruments have also begun to play an increasingly important role in the everyday lives of ordinary men and women - although many may not yet be completely aware of this fact.

The fixed-rate mortgage would not be possible without the use of derivatives, for example. Offers by shops of interest-free finance to bny goods such as cars or washing machines also rely ou deriva-

And individual savers, too, are using these instruments, either directly or through investment funds, as e profit-able and guaranteed house for

"Derivatives are at the beart of many things which people simply take for granted in veryday life." sald Richard Pratt. director of external affairs at the London international Financial Futures and Options Exchange (Liffe).

Small businesses, too, have begun to use derivatives. chiefly to protect themselves against adverse movements in interest rates and exchange

rates. They use instruments such as an interest rate cap, which puts an upper limit on the interest rate a borrower has to pay, an interest rate swap which allows the client to swap his floating interest rate payments for those tied to a fixed interest rate.

Businesses also use exchange rate futures or options which allow them to fix the price of their overseas revenues, so that they do not lose out if the exchange rate moves against them.

individual investors, too, have begun to use derivatives. On Liffe, equity options are among the most popular instruments for the smaller investor, bought either directly through a broker or indirectly by investing in a fund which deals in these instruments. "Derivatives are playing an

increasing role for investors and savers in the retail mar-ket," said Richard Bolchover, director of Close Fund Manage ment, e company recently set up to manage funds for small

They are more efficient and cheaper than the underlying market and you can tallor the risk and return profile to what the customer actually wants."

Small investors also benefit from the increased use of derivatives by pension funds tors in which they have a stake. Potentially, derivatives can enhance the performance of the fund, hence providing a higher return for each individ-

nal investor. "Fund managers in insurance funds, pension funds and unit trusts have been using derivatives for years and their use is on the increase," said Ms Sandy Phillips, head of equity products at Liffe.

The advantage for an investment fund of investing in derivatives rather than in the and more liquid.

underlying stock is that the derivatives market is larger This makes asset allocation between stocks cheaper and easier. It also means that the funds, which are often very

ا هكناون الاص

in the UK, high-street banks have been active in promoting fixed-interest rate products. motivated in large part by the difficulties inflicted by bigh interest rates at the end of the last decade. These high-interest rates put

both borrowers - and bence banks' business with the clients - at risk. Banks think that many small business failures could have been evoided if derivetive-based techniques had been in place.
A fairly long-standing com-

plaint by small companies was that often the only financing available to them was floating rate finance, which meant that in times of recession they were hit by a double blow - not only by a sharp slowdown in the demand for their goods and services but also by the high interest rates which often prevail in recession.

But hanks are now able to offer their customers financing that has a fixed interest rate. Their ability to do so has been enhanced to a large extent by their increeeing use of short-term interest rate futures and options markets for medi um-term financing, and, for longer-term financing, of government bond futures and

One of the most important developments in the derivatives industry in recent years, and one which has made the provision of fixed-rate finance possible, is the introduction and growth of sbort-term interest rate intures and options markets, such as the short sterling market on Liffe in

London These markets are useful because they allow an investor to offset the effects of interest large, do not move the market

against them when they decide ket holdings with price to change their asset alloca- changes in the futures and options.

In this way, buyers of short-term interest rate con-tracts can effectively fix the interest rate at which they borrow or lend money. For example, a company may have e sum of money it wishes

to invest but It thinks thet interest rates are set to fall The company could buy a short sterling contract which expires in three months. If, by that time, interest rates have not fallen, then the company have lost nothing. If, on the other hand, rates have declined, the company will be faced with a lower investment rate but the price of the futures contract will have risen to offset this.

Another example is a company which wants to borrow some money but which thinks interest rates are set to rise. The company could sell short sterling futures today. If rates do rise then borrowing costs would also be higher but the company could now buy futures back et a cheaper price and use the profit to offset the increased interest cost.

If this is a bank or a building

than just

derivatives

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A CONTRACTOR OF
Mew products: by Richard Irving

licence for fresh markets

Specialists are aiming to engineer a whole range of potentially lucrative products

Futures and options on fishing rights, endangered species and even permits aimed at combating the threat of global warming could be among a welter of new environmental derivative products reaching the world's trading floors before the end of the century. According to Richard San-

dor, chairman and chief executiva of Centre Financial Prod-ncts, the New York-based derivatives boutique, Wall Street specialists are looking to apply their financial engineering know-how to a whole range of potentially lucrative markets, from pollution control to crop yield insurance.

Mr Sandor, a former director of the Chicago Board of Trade (CBoT) and a founding father of the financial derivatives industry, says it is only a matter of time before atmospheric pollutants such as carbon dioxide are commoditised and honed into freely-tradeable instruments. At least one leading US bank is looking at a way to create a two-way market In pollution licences and nore are expected to follow suit as further amendments to the US Clean Air Act (1990)) are introduced.

Already the US Environmental Protection Agency is pioneering a programme aimed at reducing sulphur dioxide emissions, the principal pollutant in acid rain, by up to 10m tonnes a year, Together with the CBoT, the agency runs a sealed auction each year where power utilitles can trade licences granting them certain emission rights on a spot, sixand seven-year forward basis. The latest auction, beld this March, raised more than \$22m and garnered bids for licences from around 140 industry participants.

A similar market in carbon dioxide emission licences, backed by a global accord and based in each of the Asian. European and North American time zones, is being considered by a United Nations environmental working party and

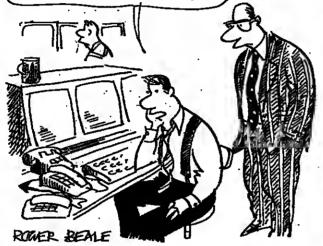
could be up and running by early 1998. Although little exists in the way of infrastructure, the potential for a burgeoning swaps market, where, for example, a user might want to pay out a cash flow linked to an oxygen-producing asset and receive a cash flow linked to a securitised carbon dioxide emission licence, is massiva, Mr Sandor says.

"We've already shown that a market-based psychology can re-invent environmental regulation. If it can unambiguously stop acid rain in its tracks,

become the single largest derivatives market of them all. In particular, the catastrophe insurance sector is desperately short of capital and unable to generate enough capacity to write new business - the loss potential from just one earthquake or hurricane, for example, could stretch the resources of the US'a \$200bn insurance pool to breaking point.

Moreover, investment bankers stand ready to encourage portfolio managers to accept insurance derivatives as a means to diversify away from

DERIVATIVES SALES ARE DOWN ACAIN. WE NEED A NEW PRODUCT THAT INVESTORS DON'T FULLY UNDERSTAND



then it can belp combat the threat of global warming," he

Commoditisation of fishing rights and iand to support endangered species could follow if the concept proves suc-

Mr Sandor has a remarkable gift for turning potential derivative applications into multibillion dollar markets. As well as pioneering futures and options on interest rates and currencies in the late 1970s and early 80s he continues to play a pivotal role in encouraging closer links between the canttal markets and the insurance industry.

Supporters believe trade in rance futures and options

the more traditional capital markats: "The good news is that insurance derivatives represent a totally new asset class," says Marcus Everard, managing director of Crédit Suisse Financial Products in London. "The bad news is, that they represent a totally new asset class and thus have limited appeal to what is traditionally a conservative end of the market." But, he adds, while there is still a good deal more talk than action, much of the hype surrounding the launch of insurance derivatives has died down, "Expectations are

Perplexed by the low trading volumes passing through the other commodities floor and convinced that the proves successful.

at least more realistic now," he

Managed futures: by Henry Harington

Testing times for fund managers

The volatility in markets is causing a reassessment of investment strategies

devil lies in the detail, the

CBoT recently launched a new

series of options on nine catas-

trophe loss indices compiled by

Property Claim Services, a leading supplier of loss esti-

mate data. The indices, which

are more fungible with existing

over-the-counter products,

cover US exposures nationally, regionally (eastern, north-east-

ern, sonth-eastern, mid-west-

ern and western) and in select

catastrophe-prone states (Flo-

rida, Texas and California) and

aim to capture more than dou-

ble the catastropha losses

pooled in data used in earlier

As part of the overhaul, the

exchange also extended the

development period of the con-

tracts from three months to

either six or 12 months to cap-

ture slower-developing losses

such as those arising from last

year's \$7bn earthquake in

Northridge California, which

killed 60 people and damaged more than 40,000 homes.

under 4,000 catastrophe insur-

ance options have traded this

year - fewer than a fraction of

the daily volumes its flagship

treasury long-bond options

contract might trada in an

In the UK, the situation is

even worse. Bankers say busi-

ness is stymied by the lack of an exchange-traded contract

off which to price and hedge

privately negotiated deals.

According to one senior rein-

surance broker, one of the larg-

est banks in the market has

only written one structured

deal in the three years it has

Finally, this year an innova-

tive development in the agri-

cultural sector has attracted

intrest. When the Canadian

government put out to tender a

new insurance programme to

replace cattle subsidies with a

derivatives-based alternative

this June, competition to win

the mandate was reportedly

fierce. Bankers Trust eventu-

ally emerged to run the pro-

gramme, which allows Cana-

dian farmers to not only hedge

against swines in cattle prices

but also against fluctuations in

the Canadian dollar exchange

rate, and promises similar

price insurance contracts on

other commodities if the pilot

run an office out of London.

But despite all its efforts,

contracts

Few things in life are predictable but investors in managed futures fimds have, over the years, become used to the idea that they do well when stock and bond markets are not faring well. And they do not do so well when stock and bond markets are thriving.

But this conventional wisdom is being tested. According to Nicola Meaden, managing director of TASS Management Limited in London which tracks tha performance of these funds that invest in derivative products, "last year was the first year where every market lost money. We saw pretty awful to dreadful

And this year, "after doing fantastically well in the first quarter, by shorting the dollar. managed fund managers have not done so well for the rest of the year, she says.

This uneven performance is borne out by Frank Simons who runs Simons Capital from Coral Spring in Florida, He says that his fund's performance is 137 per cent up to the end of October. The gains came in two spurts and relied on currency and interest rate shifts rather than a uniform investment strategy.

However, Mr Simons stresses he was in a good position to take advantage of the sea changes when they came. "I made adjustments to my portfolio in February which placed me well for the rise of the yen and the decline of the dollar. It was lnck later in the year when I was also positioned with a large proportion of futures contracts."

He says his strategies involving US treasuries, UK gilts and the German Bund have also done well. If you get two moves in currency in a year that is a tremendous trading opportunity. I caught the good moves on currency and interest rates." he concludes. Ms Meaden says managers

who relied on "the black box" - trades driven by computer programmes - have tended to do well as the trades are triggered by market events. Those whose strategies are macro based, relying on fundamental economic indicators, did not do so well at the beginning of the year when the yen rose, but were better placed in August when the dollar rose.

But the volatility of the past two years is bringing into question the traditional link between managed futures fund performance and that of stock and bond markets. "Managed futures have benefited historically from the correlation with stock and bonds markets. The rise of stocks and bonds in the past has not boded well for managed futures while a fall in these markets has usually been a good sign for managed funds," says Ms Meaden She adds: "Some investors do

not look for a correlation but take a punt. They want something a bit racy." But some are more methodical, especially at the institutional level. Some people want to be able to rely on a low correlation.

Kenneth Jakubzak, president of KMJ Capital Management in Chicago, says he has had a good year on the back of currency and interest rate movements. From January to Sep tember this year his diversified fund was the top performer among funds with more than \$10m under management.

He believes that the low correlation between bond and stock markets and managed futures funds still holds and sees managed futures as an addition to any investment portfolio Mr Jakubzak notes, however

that volatility was higher than five years ago and that investors are looking for curtailed volatility. "They are looking for a smooth ride even if that means a smaller return." He believes that trend will con-

"We are working hard at reducing volatility." He admits that this will make him more conservative but adds that it means they are edapting to their clients' wishes. But Ms Meaden says in 1981



Nicola Meaden: "we saw pretty awtul results last year"

academic research suggested thet it made sense to allocate between 5 per cent and 20 per cent to managed futures because of the correlation with the stock and bond markets.

"If the same study were done today you would be unlikely to get the same result. In those days at least two thirds of the futures transactions were commodity-based. Now it is financial futures that are in the majority," she says.

There is a range of new variables which may be diffusing the effects of the traditional correlation and, incrementally, forcing change on the market. Giobalisation has meant

more markets, more products and more exchanges. The process has been accelerated by more and greater access to financial information and the deregulation of existing markets and indeed the increase in the number of people trading derivatives. Ms Meaden says the number of commodity trading advisers (CTAs) has risen fivefold in the past 14 years.

in 1981, the personal com-puter was in its infancy. Today it is ubiquitous in the developent of investment strategies and in trading.

But Mr Simons sees a swing back to commodities. "In the past three or four years I have concentrated on financiai futures but recently I have been trading raw commodities which I have not traded for eight years. We have done research and the simulations are spectacular. To my disbelief diversification into commodity markets offers the same risk factors but a profit potential of 20 per cent. Although 95 per cent of profits this year come from currency and interest rates I am very excited to be working with copper, cotton and crude." Along with the market re Id 00

ill of

changes the managed futures industry has suffered some setbacks. Last year. TASS Management calculates that funds shrank by about \$1bn out of the \$20bn managed. Managers feel frustrated by

the loss of about 5 per cent of the funds they manage. The withdrawals, they maintain, were no reflection on the performance of the funds. The decisions were taken for political or cosmetic reasons.

Virginia Retirement System (VRS) withdrew from managed futures investments when a change from a Democrat to a Republican administration saw a clean sweep which included a change in investment objectives. Eastman Kodak has with-

drawn its long-standing investments in managed futures. The view among managed futures managers is that the company wished to distance itself from the losses publicised in such financial disasters attributed to derivatives use. Industry sources stress that

most of the bad publicity relating to derivatives involved customised or over-tbe-counter (OTC) products. Managed futures managers stock in trade are the better regulated and liquid exchange traded instruments.

Mr Simons does not consider VRS and other departures as negative, "Managed futures did work for them. The change reflects a change in the politi-cal administration rather than economic factors."



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Haentan Hatea

New generation takes over

Two developments are helping money managers to define the risks they want to trade

Growth in the over-the-counter derivatives market may be slowing as corporate buyers and dealers reassess their exposures in the wake of the highly publicised losses of the past three years.

However, the once exotle innovations of the early 1990s - the "quanto swap" and "path dependent options" - are gradually becoming an established feature of international financial markets, as buyers increasingly turn to the new techniques. With interest rates lower than expected, some endusers are using the techniques to enbance returns. But, according to dealers, many more are turning in complex structures as a way of reducing the cost of their protection.

"People are much less willing to take aggressive trading views," says James Orhell, director Credit Suisse Financial Products. "They are using derivatives to protect themselves and reduce the cost of defensive strategies. As a general rule clients hate paying premiums for options and they use this technology to reduce the costs.

Two developments in the early 1990s have paved the way for a new generation of interest rate and money market products, which give investors and money managers a greater ability to define more accurately the risks they want to

First, an increase in accessi

ble and affordable computer power has made it easier for dealers to design complex products and to Protect their own exposures. Cheaper computer hardware and faster software is Identified by dealers as a crucial element in the emergence of so-called path depen-

dent and barrier option products, which offer a return or protection based on the direction in which a particular asset or market moves. Computer power not only allows dealers to calculate numbers more quickly to develop new products, it also enables them to monitor their own exposures more efficiently and, ultimately, to use their capital more effectively.

"Two to three years ago it could take all weekend to pro-duce a risk report on a portfolio," says Jerry Del Missler, head of interest rate and currency derivatives in Europe at Bankers Trust, "You can now carry out these calculations much more quickly."
Second, methodologies for

pricing the risks linked to correlation between different kinds of financial instruments have become much more sophisticated, For example, these new techniques are an important element in the emergence of the quanto swap, a product which can give investors a return based on the performance of a bond or financial instrument denominated in one currency and pay them in another currency.

The combination of these two developments has made it easier to "handle the risk associated with those kind of products", says Mr Orbell. "Many more people have experience of running these systems. More

and more people have done these transactions and feel comfortable with them." After the highly publicised

losses this year, the use of these new techniques and products for speculative pur-poses has become less popular. Demand for "path dependent" products offering highly geared plays on market movements of the kind which resulted in heavy losses for Procter & Gamble, for example - has fallen sharply. But with short-term interest rates lower than expected, some investors and money market managers are beginning to look at ways to enhance yields. Mr Del Missier says this

explains an increase in demand for so-called "you choose" trades. In these cases investors forecast a range of interest rates - 50 basis points above and 50 basis points below Libor, for example - for the length of their intended investment. If the London interbank offered rate (Libor) remains within this range interest is accrued at a higher than market rate. By contrast, for the days in which Libor falls outside this range no interest is accrued. An additional feature of the product allows buyers to reset terms

every three months. Traditional buyers of floating rate products, such as money market managers, are accounting for the bulk of demand for such products, says Mr Del Missier

The more significant trend, though, is the way in which products based on path dependent and barrier options techniques are being used as a means of reducing the cost of protection. Because of the

trend in short-term interest After sparkling rates, money managers have

Hedge funds: by Christine Moir

funds were hit by

the bloodbath in

not immune from it.

tween 1990 and 1993.

of Momentum Asset Manage-

ment, confirms that money

poured in through the doors in

1993 and the beginning of 1994.

"One of our funds quadrupled in size in January 1994."

bath in the global bond mar-

kets and the bedge funds paid

twice over. The losses were

bad enough (Mr Soros was said

to have lost \$600m on Valen-

tine's Day alone). What fol-

lowed was worse. Investors

lost their nerve and began to

London-based TASS Manage-

ment, which monitors the per-

formance of hedge funds world-

wide, estimates that hy the middle of this year funds under

management had shrunk by

about \$15bn from their end-

hardt, a hedge fund manager

well known for his aggressive pess, suddenly guit at the age

of 54. Mr Steinhardt's com-

pound annual performance from 1968 to 1993 had been an

enviable 27 per cent. But in 1994 he plunged for the first

time into the international

bood markets and lost \$1bm.

mind is hubris." he said. "I

didn't have the depth of experience I had in other areas.

Competitors put Mr Stein-

hardt's departure down to his emotional temperament but

the bedge fund industry as a

whole has been scarred by the

experience of 1994. Perfor-

mances may have recovered this year - TASS reports that

the large, macrofunds have

Last month, Michael Stein-

withdraw their money

1993 peak of \$80bn.

Next month came the blood-

faced relatively high opportunity costs when they choose to shift their liabilities from floating to fixed rates. At the same time, the increase in levels of volatility in international money and bond markets means that caps

limiting floating interest rates

are relatively expensive.

As a result, many end-users are opting for caps or barriers which they pay for only if they are used. Alternatively, some caps are being priced further "out of the money" or are structured to disappear if interest rates rise beyond a certain specified level, or if other economic variables - such as currency rates - vary beyond preset limits. "The point is that protection can be structured to fit a specific risk profile." explains Mr Del Missier.

lan Garrison, head of UK derivatives marketing at Société Générale, says that interest rate caps with barrier options can be cheaper and provide more cost-effective pro-

Flexible caps with a limited life are also popular. These products can be attractive for end-users who believe that interest rates will rise at some stage over a given period but will not remain at high levels

For example, end-users can buy a cap which comes into effect only on the first few occasions that interest rates rise above a pre-determined

"It is not suitable if rate rises prove to be sustained but it can be between a third and two thirds of the price of a standard vanilla option.



George Scross the Hungarian financier runs the largest hedge fund

returned plus 16 per cent in the first nine months compared with minus 18 per cent in 1994 hnt investors no longer believe that managers can devise effective strategies to shield them from losses if they take huge punts on the direc-

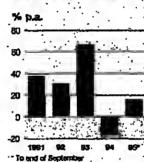
tion of markets. Mr Goldman believes there is "a drift away from those who think they know what the yen is going to do to specialists who know a particular sector inside out". The specialists selves seem to be adopting more conservative strategies, going long on individual stocks which they believe will perform differently from the rest of the market while protecting themselves against

"put" on the index.

These "back-to-basics" strategies are further anchored to the real world by being, in the

market falls with a permanent

Performance of global macro bedge funds



main, event-driven. A specialist in bank stocks would be activated when, for instance, a bout of merger mania seemed likely. In short, behaving as pure arbitrageurs.

This preference bas also accelerated what Mr Goldman calls "a drift to experience". Apart from the big operators who wrongly bet on which way interest rates or currencies would go, the other casualties of 1994 were mainly newcomers, sucked in during the heady days of 1992 and 1993 only to come unstuck in the turbulent markets in 1994.

This has, of course, played into the hands of established operators such as Mr Soros and Julian Robertson, who runs the doyen of US hedge funds, the Tiger Fund. Mr Soros's Quantum Fund performed poorly by its standards in 1994, but at least it returned a positive 3.9 per cent. While it did suffer net redemptions that year, by March of this year new contributions were again measurable and growth has

has also returned to a net new money position since early this year. Tiger's attraction for cautious investors is that it is run as the antithesis of a solo brilliant atock picker. Joseph Nicholas, president of the Chicago-based Hedge Fund Research company, says "with 180-odd staff Tiger Is a full-scale corporation. Its approach is institutionalised".

Once-bitten investors, Mr Joseph believes, are looking for transparency, for strategies which are intelligible and replicable. An institution bas the same requirements,

Some experts in the field however, believe that hedge fund managers must resist becoming too institutionalised and, especially, too large. One of the reasons for the bond market losses of the macro funds, it is argued, is that they took positions which were too large to hedge.

The argument that size is a barrier to agile trading seems to have been accepted by some of the fund managers themselves, in June, Bruce Covner, chairman of Caxton Corporation, one of the largest bedge fund managers, returned twothirds of his \$1.8bn under management back to investors. Seven months earlier Paul Tudor Jones, of Tudor Investments, had returned \$670m, or one-third of the total be man-

Where that money will now flow is not easy to see. Emergporters again and the advice of contrarian strategists is being heeded. Before 1994, both of these strategies would have been packaged with some of the fancier forms of hedges. Now, with investors happler with less exciting - and less risky - investments, some think they may prefer to put smaller sums into vanilla-flavoured direct strategies.

Risk management by Richard Irving

James Orbeit: "people are much less willing to take aggressive trading views"

Shock-absorbing models

Banks with risk management systems are developing versions for the commercial market

On January 1 next year, the Bank of England's interpretation of the European Capital Adequacy Directive (Cad) hecomes law. For the first time, a leading regulator will offer UK banks an opportunity to use their own state-of-the-art risk management systems to calculate the capital they must put aside to support foreign exchange and securities deal-

It is unlikely to be the last. The lalest consultative propos-als to be published by the Basic Committee on Banking Supervision, which intends to implement a stricter regulatory regime in early 1997, also suggests there will be a place, albeit a strictly limited one, for similar in-house models.

But nithough risk managers have fought long and hard to win regulatory backing, the victory appears to be something of a hollow one. According in one Bank of England official, only a bandful of banks are seeking permission to usc internal value-at-risk models as part of the Cad process. The reality for most UK banks is that the more tradi-"bullding-block" tional approach, which relies on allocating capital separately for different business lines, will ultimately require a smaller capital charge and therefore prove a cheaper alter-

native. Nevertheless, the industry fights on. Risk management is one of the last great frontiers in global investment banking. not least because there bas been a shift in emphasis towards risk-adjusted performance measurement but also

because ever-more stringent regulatory requirements are making capital scarcer. Moreover, the use of risk analysis models is rapidly advancing way beyond the point where they are being used to finetunc capital adequacy requirements. At the very least, banks use them to estimate the potential losses (or value-atrisk) they face in their

day-to-day operations. By adjusting the range of data that is fed into a model. a bank can cushion itself to a greater or lesser extent against severe shocks such as the global bond market shake-out of February 1994 or the 1987 stock market crash.

But the real potential lies clsewhere. Those with more sophisticated systems are already waking up to their marketing potential and devel-oping user-friendly versions for the commercial market. A good system is an ideal platform from which to launch a whule gamut of risk management services, from securities valuations and risk-adjusted performance measurements to

lung-term strategic advice. The frantic pace of activity dates back to J P Morgan's surprise decision to make its own proprietary risk management system, RiskMetrics, public in October 1994. The intention was to show the techniques and historic data it uses daily to estimate risk exposures, set position limits and refine asset allocation strategies. By providing potential users with a relatively simple tool kit to analyse risk, we hoped to open up a debate on the measurement of market risk and hasten the development of an industry-wide standard." explains a spokesman at JP

Morean's New York beadquar-The bank's latest version still has lts shortcomings - it cannot, for example, generate a management to adjust the

value-at-risk exposure for many derivative products including options, (arguably the securitles most likely to worry the regulators). Neither can it take into account the influence derivatives now have on underlying cash markets, which lays it open to losses that might arise through hasis risk. But the system continues to be successful in doing what it promised to do - encourage rival hanks and software honses to use its numbercrunching methodology as a

hase from which to develop a

new generation of risk manage-

Leading the field is Rankers Trust, which recently unveiled its Raroc (Risk-adjusted return on capital) 2020 system. The US investment bank, still trying to extricate itself from an embarrassing legal dispute with a former client over derivatives deals that turned sour, is hoping to rebuild its reputation with the launch of a model which, it says, takes risk management a giant step forward. Value-at-risk as we currently know it. is just a snapshot - a single consolidated number that gives you a backwardlooking view of what could happen to your portfolio," says Lee Barba, managing director

risk information services "What risk analysis should really be, is a movie." Raroc, says Mr Barba, is not just another "black-box" which translates the market risk of portfolio into a simple number reflecting earnings sensitivity. It is a methodology for unbundling, measuring and evaluating risks, and for setting capital requirements to cover those risks. It can help ldentify the extent to which a portfolio may be diversified and indicate bow specific busi-

nesses are doing on a risk-ad-

justed basis, thereby allowing

and head of Bankers Trust's

asset and liability mix to properly reflect risk management

Significently, Raroc 2020 also attempts to capture the market risk associated with derivatives by subjecting them to thousands of potential market moves and allocating a capital charge that would sufficiently cover 99 per cent of all losses generated by them.

But the system does not come cheap. Unlike RiskMe-trics, which J P Morgan offered to the market free of charge, a one-off run through Raroc 2020 reportedly costs around \$75,000 while on site licences start at a cool \$1m

Yet, despite the price, the bank reports no shortage of willing takers - it has already signed up three leading US institutional fund managers, including the \$12.5bn Chrysler pension fund, a leading international insurer and a European utility. And the potential savings the system can offer look set to encourage more. When Russ Flynn, Chrysler's director of pension fund management, ran the fund's \$400m currency exposure through the system, he uncovered a natural bedge which reduced the incremental risk exposure in the portfolio to less than 5 per cent or \$20m.

Raroc 2020 is not the definitive word on risk management. While it has made efforts to include derivative instruments within the framework and offers near-endless opportunities for customisation, the model, like all its competitors, still only attempts to capture 99 per cent of the possible losses that might occur in a market shock.

The only solution is to run another model, which puts the portfolio under unusual stresses in try to shake out any potential unexploded bombs. alongside the original risk management system.

PROFILE

Focus on international horizons

A large, stripey brown sea urchin sits encased in glass to the Paris office of Alain Crosler, the chairman of Fimat. Its dangerous and irregular limbs might well symbolise the risks and irregularities of the derivatives market with

But while most companies would prefer to live a relatively risk-averse life without too many uncertainties, for Firnat and other dealers on the world derivatives markets the more variation the better.

which he has to deal every

seems to have been able to cope rather well with the finctuations of the past few years, although it is now becoming increasingly difficult as it becomes a higger operator and has to adjust to a more competitive market at a time of falling volumes. Created in 1986 by Société Générale, one of the France's

Until now, Firnat certainly

largest private sector banks. Fimat was in many ways a response to the development of the Matif, the French financial futures exchange also launched at the same time, and which remains a very important focus for its activities today. Partly as a mark of the

company's relative independence from its only shareholder, it has resisted the move over the past few months by Société Générale to consolidate its dispersed offices around Paris into the gleaming new headquarters tower in La Défense to the west of Paris, which was naugurated in late October.

Instead, Fimat's focus over the last few years has been on far broader foreign horizons opening offices around the

world. Since turning towards international expansion in 1939, it now has 26 subsidiaries, employs more than 1,100 staff to 16 countries and has membership on 31 different futures exchanges, in the latest wave of expansion due very shortly, it is to start trading index products in Korea and Malaysia, with

others in the pipeline It seems that its parent company has had every incentive to remain its sole investor, given the performance of its subsidiary. Volumes, market share, staff and membership of exchanges grew consistently between 1989 and 1994. Last year, net income jumped almost threefold from the previous year to FFr79m and total assets stood at FFr7.4bn.

On the other hand, the relationship with its shareholder is clearly not only one-way, since Fimat receives a large proportion of work from Société Générale as a client, which it argues is a purely commercial relationship. "We have to provide them with a competitive service," says Mr Crosier. However, 1995 has not

proved an easy time for brokers. "Volume last year was much more significant than this year," says Mr Crosier. "I can say that 1995 ie a crisis year, with a very strong decline in volumes. To some degree, Fimat's

international spread of husiness has belped it absorb some of the worst impacts of the crisis, with its Aslan and US business helping to compensate for a poorer year in the derivatives exchanges in Europe It has also been boosted this

year with the effects of

starting on new exchanges -such as Brazil and Canada as well as its important equisition of Brody White, the US commodities broker. finalised towards the end of

All these add-ons mean that Mr Crosier estimated total volumes traded for 1995 will still be up on last year - to about 105m from 92m in 1994. He says there would have been some growth even after stripping out these new

activities. He argues that 1995 represents simply a "cyclical" decline, albeit a powerful one,

Fimat now has 26 subsidiaries around the world and employs more than 1,100 staff in 16 countries

and partly reflects the inevitable drop after the exceptionally active period of 1994. He adds that there has been some negative impact from recent well-publicised problems with derivatives, such as the collapse of Barings and the problems of Orange County in California Clients are using derivatives less frequently than before.

They are afraid," he says. The difficulties have not left First untouched. It closed its currency options desk in Philadelphia earlier this year - leaving just two representatives in place - and is planning shortly to shut down its currency desk at the

Chicago Mercantile Exchange.

"The volume and the clients were not there," says Marc Breillout, general manager.

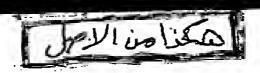
Despite the pressure on volumes. Firmat is committed to substantial financial investments begun recently. totalling at least \$20m a year. In 1994, it centralised all its back office processing operations in Chicago, reflecting the fact that its contractor GMI is based there, and the ability to deal with daily transactions in the period hetween the closure of New York and before the Asian markets open.

It has also taken the decision to appoint a single private telecommunications network, which is being managed by France Télécom at a cost of \$7m a year. "We want to provide a global service to global customers while decreasing our costs, says Mr Breillont. "We want to provide more services at lower costs. It's easy to say. but it's exactly the key."

Mr Crosier argues that gaining market share is a central strategic objective to ensure Firnat's future survival. While some other brokers close down operations in markets with falling volumes, he argues that Fimat needs to remain present so it can capture this business from its rivals' clients.

"It is more and more important to have critical size," he says. "Clients are asking more than ever for brokers backed by Institutions with good ratings, who have full control of processing and are able to clear in all markets '

Andrew Jack and Richard Lapper



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ING Futures & Options

Salvage operation forges ahead

Cleaning up the site of a \$1bn "accident" requires delicate managemeot, particularly when substantial assets are to be redeployed, and millions of dollars in business must be salvaged. For the past nine months, that has been the task of Karsten "Cash" Mahlmann, a senior managing director of ING Capital Holdings, a subsidiary of

Amsterdam-based ING Bank. When ING rode in like a white knight and acquired the remains of Barings last February, analysts praised the fit between ING and Barings's remaining businesses. The Dutch bank had offices in some 50 counties around the globe, and was a specialist in emerging market debt and commodity financing. Barings operated in many of the same countries, and specialised in emerging market equity. Botb had growing asset

gement portfolios Combined under the ING flag, the two companies rreated a powerful international investment

The task of weaving together ING's nascent futures and options operations and Barings's wounded, but considerable, derivatives arm vas left to Mr Mahlmann.

The clean-up is something of redeeming opportunity for Mr Mahlmann. Once the bead of Chicago-based brokerage firm Stotler, and a distinguished chairman of the Chicago Board of Trade, Mr

Mahlmann was forced to resign both positions in 1990 when Stotler collapsed and it was discovered customer funds had been used to prop up the firm's finances.

The Stotler failure was attributed to misdealings on the part of Mr Mahlmann's partners at the firm, and Mr Mahlmann was never charged with wrongdoing. Nonetheless he quickly departed for London, where he managed the operations of Chicago-based Rosenthal and Collins, a futures trading boutique.

That position grew into a job as head of all of ING's futures dealings worldwide, which, prior to the Barings acquisition, included operations in London For the past year Mr

Mahlmann bas been back in Cbicago, building ING's business. Sitting in his office in the sulendidly-restored Rookery Building just a stone's throw down LaSalle Street from the Chicago Board of Trade. Mr Mahlmann ticks off a progress report ou ING's Asian futures and options

One of the biggest plums of the Barings takeover was Barings Securities' Japanese presence. Obtaining memberships to Japanese futures and ontions exchanges and permissions to do business can take years.

"To be in Japan, to have done business there, and to have a big client base, that is something." said Mr Mahlmann.

Late this month, ING will restart that Japanese futures and options business under the old name of Barings Securities.

In Hong Kong, ING has rebuilt the futures operations from the ground up, and will open offices there within a few weeks using the name ING Futures & Options Hong Kong

ING did not acquire the assets or the liabilities of Barings's ill-fated Singapore operations. Instead, Mr Mahlmann and the ING team have been conducting careful diplomacy, and recently received approval in principle to open a new business under the ING Futures & Options name at the Singapore International Monetary Exchange.

"We hope to be doing business in Singapore by the end of the month," Mr Mahlmann said.

Re-opening the Asian offices will be just the start of ING's challenges in the Far East. Prior to the crisis Barings Securities held in excess of \$300m in margin deposits from US futures brokerage firms that dealt through Barings in In the nine months since the

British bank's crisis, some of those US companies have opened their own operations in Singapore, and have turned from customers into

competitors. "That nine-month hiatus has burt. We have to work hard to rebuild that " Mr Mahlmann said.

ING's high-quality credit rating will help, but Mr Mahlmann is aware that rebuilding trust in Asian futures and options dealing is a must. "We're going to offer clean statements, we're assuring fund safety, good service, good management," be said.

A fundamental difference between ING Futures and Options and the old Barings is that ING will have tro proprietary trading operations, and customer funds will be completely segregated from company accounts. Every account sent through the Far East will also have supervision out of London.

The long-time futures industry connections and experience of Mr Mahlmann and his associates at ING will also help.

That has already been

demonstrated over the past year in Chicago. Nelther ING nor Barings had moch presence here two years ago. However, ING is now one of the 10 largest trade-clearing firms at both the Chicago Board of Trade and the Chicago Mercantile Exchange.

and its business at the Chicago **Board Options Exchange** represents about 25 per cent of the CBoE's daily volume. That growth was prompted in part by ING's willingness to back local, or individual.

traders in Chicago. However, the Dutch bank has inherent global interests that feed its derivatives busine

As a commodity lender, ING needs to offer commodity hedging services to its customers. With \$210bn in assets and \$13bn in capital it also has its own hedging and investment needs in the financial futures markets. ING's AA credit rating also attracts business from managed money and hedge funds, which need futures and options services.

ING's strategy is a global one, and Mr Mahlmann says that be is continually evaluating futures and options opportunities for ING in emerging markets. For now, operations in Latin

America and parts of Asia are difficult for regulatory reasons, but he said, "we strongly believe we have to be part of new emerging markets products (whether traded onshore or offshore) and be in the emerging market countries themselves'

With global operations, ING can also offer customers global custody arrangements, an area of potential growth. A customer dealing futures and options in one country can move those funds to another market easily, instantly redeploying resources. "This is a very important aspect of this ss." said Mahlmann



Laurie Morse Kersten "Cash" Mahimann: busy cleaning up the image of Barings

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■ Witching hour: by Jeffrey Brown

Contract expiry time trial is working well

The days of dangerous price manipulation may now be a thing of the past

Witching bour, dealers' descriptive phrase for the moment at which derivatives contracts expire, is not what It

used to be. There was a time in the aftermath of the dramatic stock market shake-outs of 1987, for example - when derivatives expiries with their scenes of near feeding frenzy as dealers scrambled over themselves to cover or extend positions were treated with extreme caution and often out-

right distaste. However, the outward signs

suggest that much of this apparent investor disaffection has begun to melt away.

The reasons for the change of heart among investors and marketmakers as well as regulators are manifold and complex. There is no single cata-

In some senses, time has simply proved an efficient healer. There have been some regulatory changes, but these have been more of an adjustment than strict police-work. If there is a driving force it is

probably increased usage of derivative markets coupled with a wider variety of contracts and greater investor sophistication. As a result the scope for distortion via arhitrage trading has been reduced by a relatively painless process of natural selection.

"Thanks to more players and better liquidity the major derivative markets have become more evenly balanced. It does begin to look as if market forces, the trade-off between supply and demand, are now asserting themselves with more equal force" said one top futures marketmaker. This is not to suggest that distortion to prices in underlying cash markets no longer

they occur it is within clearly more defined and easily indentified boundaries. "There will always be a technical risk at expiry. That is the nature of the beast", says Nick

Carew Hunt, market secretary

at Liffe, London's financial

take place. They do. But when

futures exchange, But the risk is now woolly visible, he says. "It is now there for all to see." Those who want to play can, and those who not need not."

Exptry distortions are driven by a whole string of factors. Volume and volatility during the life of a contract, dividend flows and fair value calculations and the proportion of structured (over-tbe-counter) business are perhaps the most important structural influences. Operating structures are also crucial.

Most futures markets are life of a derivate approaches lts end, the higger market operators will often attempt to maximise profits (or minimise losses) by adjusting cash market prices. Guardians of fair market

practice refer to such manoeuvres as manipulation. Others see it as fair business risk. Whatever the regulatory verdict, position-taking by the top traders is an accepted feature of Liffe's leading stock index contract the FT-SE 100 contract in the run-in to expire. Recent FT-SE 100 contract

expiries have been relatively tame affairs with the transition from one quarterly contract to the next going through smoothly. Low trading volume

has been one important reason. The next FT-SE 100 expiry is December 15. The so-called witching hour is in fact 20 minutes. The price of the expiry is calculated as an average of the

am and 10.30 am. It is during this period that the arm-twisting gets into its stride.

From this distance and given the low level of volume experienced during the quarter to date (lots dealt have rarely topped 10,000 per session) few futures watchers expect real fireworks come the middle of next month. It was not always so. Two

years ago when the December 1993 contract moved towards its close, the FT-SE 100 cash index powered ahead by dominated by the leading around 100 points as marketseasonally thin conditions to make the most of their posi-

The June 1990 expiry was another watershed session for the FT-SE 100 contract. During the final moments of the contract life, more than 30 per cent of the underlying casb index shares swung momentarily into backwardation effectively a reversal of the buying and selling spread for the shares.

Although dull volume has helped take some of the speculative sting out of the FT-SE 100 expiry in recent quarters. there is a strong argument for suggesting that moves by the authorities to smooth the transition process have been a suc-

The measures, set in train by a working party set up by the London stock exchange and Liffe, essentially changed the structure of the expiry. The

trading prices between 10.10 timing was moved from late morning to mid-morning, and the actual expiry day was moved from the last day of the mouth to mid-month.

Both changes belped the investors to avoid the notoriously thin Christmas markets previously faced by the December expiry. At the same time the actual expiry period was extended from 10 minutes to 20 minutes.

On a broader front, working parameters were assigned to brokers and marketmakers. Essentially, these were aimed at improving communication plier of derivatives services "Empirically, the steps that have been taken bave worked."

says Carew Hunt. There are two distinct expiry patterns among the leading derivatives markets. The US style, which the German and Japanese markets tend to follow, is for an overnight expiry with expiry prices based on the first deal of the following day.

Backers of the London method which include the Matif in France and the futures market in Amsterdam, argue that overnight expiry exposes the investor to too much uncertainty. In the US, trading stops in mid-afternoon - a full 15 bours before the expiry

price is finally struck. Time will tell, but in London most derivatives observers predict with some confidence that the days of dangerous price manipulation is a thing of the



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CASE STUDY Chase Manhattan Private Bank

Asian currencies attract interest

Since last year Chase Manhattan Private Bank has been purveying the acceptable face of derivatives to its wealthy clients in and beyond Asia: structured products which preserve capital while enhanced returns.

Derivatives are employed entially to eliminate capital risk and to reduce the volatility of yields. Or. as Bryan Carter, Asia area credit and portfolio executive at Chase Manhattan Private Bank in Hong Kong, puts it, to enable clients to benefit from the movements of an underlying market or currency without being directly exposed to that market or currency.

The customised products, which are chiefly based on two of the so-called exotic currencies, Thai baht and the Indonesian rupiah, allow the customer to name his view of a market and invest accordingly.
The Chase Manhattan

Private Bank claims a wide audience for the products, with investors attracted by the inherent security of capital preservation and the flexibility to follow their own view of markets and time

There is also growing interest in Asian currencies quotes from brokers on per se: Peregrine investments, a Hong Kong-based

investment bank which last month restructured its foreign exchange business to create an Asian currency trading and distribution operation. estimates that the total daily volume in spot and forward dealing in Thai baht is US\$1.8hn. with some 60 per cent of spot volume and as much as 70 per cent of swap volume coming from offshore. By comparison, in 1992 estimated daily spot volume was US\$250m and forward volume was US\$100m and

negligible. Peter Kingston. vice-president of global markets with Chase Manhattan Asia, says the Asian currency markets have developed rapidly over the past 12 to 18 months, both from a liquidity perspective and from increased

offshore interest was

sophistication. There was not much happening with regard to more sophisticated currency types of options in the market for local currencies two years ago. But now you can get quotes off brokers and broker screens. It has gone from the

odd trade to getting a series of

trades," he says. However, while markets like the Thai baht are roaring ahead, progress in the rest of Asia is more patchy, partly due to the absence of forward markets (in Taiwan, Korea, China and India), pegged currencies (in Hong Kong, where the dollar is fixed at around 7.8 to the greenback). and government restrictions (in Singapore and Malaysia). Mr Kingston, whose desk is responsible for structuring the

investments among other derivative-based products for both private and institutional clients, says that customers' demands have changed in line with the development of the market. No longer prepared to settle for products that boast neither potentially high yields nor protected capital. customers in the past two years have been seeking capital guarantees and investments that enable them to take a position based on their own beliefs; a demand which, thanks in part to derivative instruments, can now be met in Asia's key currency markets. The ability

to meet these demands has

brought US mutual and hedge

widened the appeal, and

fund managers into the fold. The structures are managed by the bank with knock-out

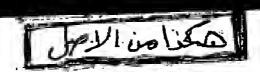
put and call currency options For range binary structured deposits, double knock-out put and call currency options allow investors to fix an upper and lower limit within which they believe the currency will range-trade, while for digital structured deposits, the bank manages the structure with a single set of knock-out put and call options for the single limit selected on maturity (digital). Chase always hedges these positions.

Mr Carter notes that the more risk-adverse investors can also opt to have a minimum conpon, so that even if the chosen currency moves beyond the stimulated limits, he can still be assured of a return (for which be sacrifices a greater return if he correctly predicts the parameters), in each case, be knows at the outset what his

yield will be. The bank, through its asset management arm, is also offering discretionary portfolio management, where again return of the initial

investment is guaranteed.

Louise Lucas



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Technology: by Claire Gooding

Keyed up for progress

Software makers are trying to meet the demand for

sophisticated methods of risk management

The language of risk is in its infancy." So says Till Guldimann, the man who managed risk at JP Morgan for 21 years and developed its market risk management and RiskMetrics

According to Mr Guldimann. who recently became executive vice-presidant at derivatives software provider Infinity, "an annual report tells you about cash, loans, bonds and buildings, but not about their risk levels, and the potential volatility of their market value. In the absence of a common language to describa risk, independent internal risk control is

a very difficult task." Frightened by the disaster at Barings, and with minds focused by the Capital Ade-

* 1907 F

A Salary

The second IT arrival is the all see the applicability of data "data warehouse", a phrase that suggests retail or manufacturing, but in fact is more to do with hoarding information that may (or may not) prove significant, and attempting to make sense of it. The data warehouse pools transactional data from operational systems into one huge repository, dedicated to analysis.

Retailers have indeed pioneered such systems, using parallel processing to discover who buys wbat, where, and when, and what the weather was like at the time, "data mining" to unearth gems of wisdom about customers and buying patterns.

Although financial transactions cannot - unlike shopping - be traced by bar codes. global risk management also demands such techniques, with links to disparate operational

The process of "cleansing" the data to define exactly what is what (different systems tend

IT'S TIME OUR GUESTS WENT WHY DON'T YOU START EXPLAINING BARRIER OPTION TECHNOLOGY TO THEM?



POLER BENNE

quacy Directive (Cad), many a financial institution is anxious to become fluent in the language of risk, "Enterprise-wide risk management" are the first words in the phrase book, and chapter one starts with deriva-

The complexity and volatility inherent in derivatives trading mean that anyone trying to compose a cross-disciplinary view of risk tends to start there, simply because it is the most difficult variable to handle in the overall "enterprise-wide" risk equation.

This puts the providers of derivatives software solutions Renaissance and Summit, to name but a few, in a particularly strong starting position in the race to produce "global risk" systems. At their disposal are information technology methods already applied successfully elsewhere, arriving in the nick of time for those racing to comply with Cad.

The first of these is objectoriented programming (Oop). which provides a simpler approach to programming through the use of "objects". An object gathers together in one place all the relevant information ahout an item (for example, a transaction), its characteristics and relation-

It also brings the ability to create a complex but very flexi-ble "data model" in which new objects (such as a new finan cial product) can "inherit" characteristics from an existing one, without starting a new definition from scratch.

Correction

Arlington

Atlanta

PINANCIAL TIMES

Contrary to the impression given in the article on securi-

ties lending in the survey of

Global Custody (FT November 6, 1995), Scottish Amicable is

just starting to lend UK secu-

rities. It is an established par-

to proffer slightly differing definitions) is intrinsic to both Oop and data warehousing. This process is one that demands skill, subtlety, and internal understanding of how each individual business operites, and often a large consultancy budget if the end results

the enterprise-wide area of applications, and for that they require the ability to have high levels of performance against very large databases. They can



are to mean anything at all. US database software house Oracle claims to be the leader in data warehousing and parallel processing. Oracle is already working with a number of software houses which build and sell derivative trading systems, such as Infinity, C.ATS, Teknekron and Sum-



ticipant in international

equity and fixed interest lending. The Co-operative Insur-

ance Society has been lending

stock since the early 1980s. Threadneedle Asset Manage-

ment acts for both Eagle Star,

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Glossary of terms

Meaningful expressions in the trade

currencies.

An explanation of some of the jargon used by dealers in the derivatives markets

warehouse technology." says Rob Cullan, senior industry

director of financial services

Oracle itself has extended its

software, with the acquisition

of IRI Express for analysts of

multi-dimensional and spatial

data (e.g. in Monte Carlo analy-

sis), and the devalopment of

C.ATS became an Oracle

business alliance partner last

month and is porting its appli-cations via Oracla's design and

migration aervices. C.ATS

chief executive Rod Beckstrom

is convinced that techniques

developed in the analysis of

derivatives will provide the genesis of generalised risk

"Financial specialists have

developed the ability to break down risk into fine-grained

granular data: they can tear an

option apart, ripping out for-eign exchange risk, volatility

risks, and so on across months,

making very precise estimates,

along with the hedging in off-setting those risks," he says.

C.ATS, says Mr Beckstrom is

well placed to deal with

importing data from the hun-

dreds of operational systems which feed and translate the

mapping tool for translating

the data and mapping it into

the database for risk analysis.

It's complex: there's no magic

potion. We also have a hands-

down advantage in that our

system is designed and tuned

to be five to 100 times faster

Infinity, already tuned to

Oracle, and with the wisdom of

Mr Guldimann at its disposal,

might also think it has a

hands-down advantage. It uses

OO technology for rapid devel-

opment, and has approached the market with a "tool kit"

approach that allows users to

In creating enterprise-wide

risk tools, argues Mr Guldi-

mann, "experience with com-

plexity certainly helps, but it's

the flexibility that really mat-

because of re-usability: it's the

lego-huild technique, offering

flexibility, adaptability, and

efficiency. The analytics, the

interface and the database are

the three key elements. First

apply the statistical analysis. The problem is granularity, the level of detail needed for mean-

ingful analysis: for that you

SunGard Capital Markets, about to launch a new product

division geared to enterprise

wide risk management, also

claims a unique approach. "A

ing all of an institution's trad-

ing information, together with innovative, seamless links to the extant systems and an

arsenal of risk management

weapons which includes hedge

equivalence, flow profiling, see

nario analysis derivatives lad-ders and value at risk" accord-

ing to marketing director lan

"We don't believe it is feasi ble for a bank-wide risk management system to rely on just

a software development tool-

kit, or adherence to a single

mathematical concept such as

which traditionally has lent stock and for Allied Dunbar

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for Oracle.

Asset allocation: the division of investments among markets to achieve diversification or

naximum return. As-you-like option (or choose option or the call-or-put option): enables the bolder to convert from one style of option to another during a preset time period. Average rate option (or Asian option): an option in which the settlement is based on the difference between the given

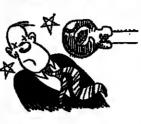
strike and the average prices of the underlying stock or index on selected dates. Barrier options: a family of path dependent options whose pay-off pattern and survival to the expiration date depend not only on the final price of the underlying security but also on whether or not the underlying security sells at or

goes through a pre-determined barrier at any time during the life of an option. Barrier options include: Knock-in option: an option which pays nothing at expiry unless it is first

'activated" as a result of an underlying variable reaching pre-determined level. Knock-out option: begins life as a standard ontion but is "killed off" if an underlying

variable touches a pre-determined level. Best-of-two option (or either-or option or alternative option): provides the option holder with a pay-off based on of two separate and distinct

Box options: instead of placing cash in a money market instrument and generating interest income equity options are purchased. The pay-offs create capital gains that can be offset against current capital losses. Call option: the right to buy a



index, or futures contract at a fixed price on or before a

specified date. Cap: contract between a borrower and a lender where the borrower is assured that he will not have to pay more than some maximum interes rate on borrowed funds. Collar: a floating rate debt contract that establishes a maximum and a minimum interest rate to be paid by the borrower.

which counterparties exchange cash flows based on a commodity price on at least one side of the transaction. Compound option: an option on an option. The holder has

the right to purchase another option on a pre-set date, at a pre-set premium. Contango: a condition in a futures market where the more distant delivery months trade at a premium to the near term delivery months. Covered call: one of the most popular option strategies,

using an existing equity position. Calls are sold on the underlying security with strikes which are higher than the market price. The strike price chosen

limits the profit a security holder can realise from the position and this strategy is best used when the holder is fairly certain that there will be little movement in the security's ahare price. of equal initial principal amounts of two currencles at the spot exchange rate. Over the term of the agreement, the counterparties exchange fixed payments in their swapped

At maturity, the principal amount is reswapped at a predetermined exchange rate so that the parties end up with their original currencie Derivative: a contract the value of which changes in concert with the price movements in a related or underlying commodity or financial instrument. The term covers standardised. exchange-traded futures and options, as well as over-the-counter swaps. options, and other customi Rouity swap: a contract

between two counterparties to exchange two different cash flows over time. During the life of the swap one party agrees to pay the rate of return on an equity or the equity index while the other party agrees to pay a floating or fixed rate of interest. Floor: an aspect of a floating rate debt contract that specifies a minimum interest rate for a borrower.

seller to exchange a particular good for a particular price at a specified future date. Futures contract: an agreement between a buyer

and a seller to exchange a particular good for a particular price at a future date as specified in a contract common to all participants in a market on an organised futures exchange Collateral must be posted for performance bonds, and positions are marked to

market at least once a day. Hedge: a transaction that reduces risk of an underlying security or commodity position by making the appropriate offsetting derivative transaction. Hybrid security: a complex security consisting of virtually any combination of two or more risk management building blocks - bond or note, forward, future or

Interest-rate swap: the exchange between



counterparties of fixed-rate and floating-rate debt in a single currency. Lookhack option: an option the pay-out of which is calculated using the highest intrinsic value of the underlying security or index over the life of an option. In the case of a lookback call, the

whereas for a lookback put, the lowest market price is

Put option: the right to sell a particular stock, bond, commodity or index at a specified future date at a



specified price. Quanto option (or guaranteed exchange rate option): an option in which foreign exchange risks in an underlying security have been Risk reversal: this strategy

combines the purchase of a put option with the sale of a

The put option preserves the capital value of the shareholding while the sale of a call option reduces or eliminates the cost of this insurance, at the expense of giving up some of the upside potential of the stock. Swap: a contract to exchange a stream of periodic payments with a counterparty. Swaption: an option to enter into a swap contract. Warrant; an option to purchase or sell an underlying instrument at a given price and time or series of prices and times. It is ordinarily issued for longer than a year, Source: Dictionary of Financial Hisk Management by Gary Gastineau, Option Volatility and Pricing Strategies by Statistics Management Could Desiration

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EUROPE'S DYNAMIC ENTREPRENEURS

Exports and quality create success

The first pan-European study into the successful fast-growing company has presented policy-makers with valuable but unexpected conclusions. Richard Gourlay reports

usiness Objects, a French software developer, is just the kind of company Europe's politicians would love to see sprouting up all over the continent.

Formed five years ago by two French software entrepreneurs, the company had sales last year of FFr168m (221.78m) and now employs more than

Yet according to research into Europe's most dynamic antrepreneurial companiea which has just been completed. Business Objects is not typical.

First of all it is a young company. Secondly it is run by relatively inexperienced entrepreneurs who quit a European division of Oracle Systems to branch out on their own. Thirdly Business Objects raised venture capital early in its life. And fourthly it has made expansion into the US a pivotal element in lts strategy, floating on the Nasdaq exchange along the way.

Almost none of these characteristics emerges as typical from the research which is being presented today and tomorrow in Ghent.

So what is the make-up of the typical rapidly-growing company in Europe, if such a business exists? On pages II and III overleaf this aurvey profiles just the sort of companies in a variety of European countries which exemplify rapid growth in a dynamic business environment. The answer is, bowever, that until now, few policymakers at European level have known the answer, in spite of the growing importance of these new companies to the creation of wealth and jobs in Europe.

This lack of understanding partly explains wby the Euro-Commission last year funded a group of research institutes, co-ordinated by the

11724

European Foundation for (Efer) and supported by accountants Ernst & Young, and financial information providers Dun & Bradstreet, to identify 500 exceptional entrepreneurs who are running very fast-growing companies.

The aurvay involved more than 20,000 fax and telephone calls to companies and nearly 400 fsce-to-face interviews. It has resulted in one of the largest ever pan-European studies of entrepreneurial success.

The reaearch was not intended to be comprehensive. It does not claim to have identified the 500 fastest-growing companies or those that have created most jobs. Too many European companies prefer their privacy for such a claim to be made Nor were its terms of refer-

ence, based on criteria dictated by the Commission, as clear as they could have been. As a result, the measurement of growth was over-dependent on the rate of job creation rather than increases in turnover.

Other limits on the size of the businesses to be covered were built into the research parameters. To be eligible companies had to be growing rapidly - as measured by a combination of absolute employment growth and growth relative to the company's size (for details see methodology on page III). They were also required to bave grown to at least 40 employees by 1994 and to have started in 1989 with fewer than

In consequence many small but rapidly growing high technology companies will have been missed out, such as Probe Entertainment, a UK games software company sold to Acclaim Entertainment of the US for more than £20m last

At the other end of the scale tha Commission'a criteria excluded companies such as Billa, the Austrian supermar ket chain owned by entrepre-neur Karl Wlaschek, which has increased its workforce by nearly 50 per cent through organic growth from 10,000 over the period. Another entrepreneur excluded is Eugen Münch, who controls Rhone Klinikum, a bospital services company. It has increased employment fourfold since 1989

but started with 630 employees. In spite of these reservations. the researchers have com pleted, possibly for the first time, a pan-European investieation of entrepreneurs across

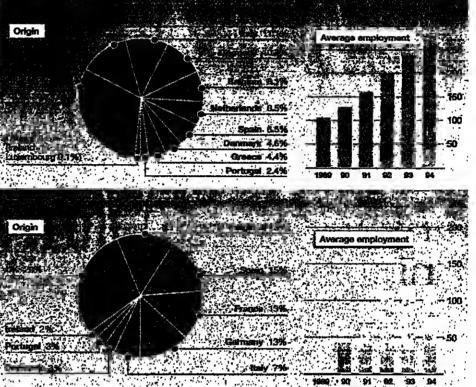
A preliminary look at the data carried out by the Belgian consultancy IP Strategies showed that the 800 fastestgrowing entrepreneurs created more than 112,350 jobs - an average of 140 jobs each - at a time when most medium-sized companies were shedding

A more detailed study of the fastest growers - what Efer calls Europe's Dynamic 500 broadly supports the IPS findings, though it was incomplete at the time of going to press.

These are hyper-growers of employment and turnover. says Mr Juan Roure, a professor at IESE Business School in Barcelona and academic co-ordinator of the project. "We are talking about 22 per cent per annum employment growth and 38 per cent a year growth in sales at a time when most of the countries were going through recession."

The typical entrepreneur displays surprising characteristics. The research shows that most of the companies were founded by experienced men and (a tipy I per cent of) women with an average of 10





years in business and an average age of 44. Many are trained ionals but all levels of educational attainment are present - half the entreprenews do not have a degree. Equally striking is the fact

that more than half the entrepreneurs founded their companies with at least one business partner. This supports the findings of research carried out in the UK that teams are either a more creative force than lone

entrepreneurs or that businesses with more than one founder start with greater critical mass and therefore have a much bigger chance of surviving and thriving As to the kinds of businesses

that are growing rapidly. Mr Roure says the research shows there is almost no difference between the sectoral distribution for Europe's 500 companies and that of enterprises throughout the EU in general. Thus there are a large num-

ber of software companies. computer systems integrators and other information and telecommunications companies. such as Rusiness Objects Netzwerk Service in Germany and Peoples Phone in the UK ogether with fother high technology companies, auch as MBR in the Republic of no more strongly represented among the fast growers, bowever, than within all EU enter-

The findings are consistent with other findings in the US that you do not have auccessful sectors, but successful companies and teams," says Mr

What may dismay researchers and policymakers who are hoping Europe will become a hotbed of the new technologies is the age of the companies surveyed. The average was 17 years, but a quarter had been founded in the last century. These companies have clearly found a second or third wind under new management in order to achieve superior levels of growth.

What is also surprising is the small number of entrepreneurs emerging from large compa-"We have hardly identified any dynamic entrepreneurs who have left large companies such as Siemens or Mercedes to start ventures on their own," says Mr Bert Twaalfhoven, who is president of Efer and the driving force behind the study of Europe's entrepreneurs. Unlike technology-based

companies, which have to operate in global markets, many of the rapid growers attributed their success to exploitation of the European market. There was a much higher proportion of exporters among the rapid growing Dynamic 500 than within the EU in general. But while exporting was a

common characteristic among the rapid growers, more than three-quarters of the exports of Europe's Dynamic 500 were to other EU countries.

Only a very small number of the Dynamic 500 grew in existing markets with existing products. Almost two-tbirds achieved growth by entering new markets with existing products. But half of these performed the high wire act of launching new products into new export markets.

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With few exceptions the entrepreneurs attributed their growth rates not to their ability to compete on price but to their quality and service. "The companies never say they are competing on cost," says Mr Roure. They compete on differentiation and in particular on quality.

Yet if the quality ethos has caught on, the use of external financing, which is firmly established in the US and the For more than 70 per cent of the rapidly-growing companies. retained profits from the busiess are the main source of

Bank loans are the next most popular method, whereas venture capital is the most popular funding route for only 10 per cent of entrepreneurs. Although venture capital has been widely adopted in the UK. and to a lesser extent in France, it is very rarely the prime source of capital elsewhere in Europe. The strongest message to

emerge is that these entrepreneurs are succeeding in spite of government policy rather than because of lt. High on their list of concerns with government - for which also read the EU - is bureaucracy and to a lesser extent the heavy burden imposed on them by social security payments.

But as Mr Heinrich von Liechtenstein, executive director of Efer, points out: "We know the entrepreneurs are growing in spite of the bureaucracy - they are bypassing the problems." The success of these compa-

nies in exporting to other EU countries would also suggest further measures to ensure the single market is fully implemented would bear fruit. "These companies are targeting the European market so anything that facilitates expansion of the single market and eliminates obstacles is important." says Mr Roure.

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Over the last decade, when they needed creative corporate finance advice, acquisition ideas and capital raising capabilities, many of Britain's most successful entrepreneurially-led companies have turned to Hill Samuel. For example, we advised First Leisure Corporation PLC on its management buy out from Forte Plc and its subsequent flotation on the London Stock Exchange in 1984. Since flotation, shares in First Leisure Corporation PLC have out performed the FTSE All Share Index by almost 200 per cent. More recent transactions include:

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continued international expansion

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matter of personal chemistry

A small agency has grown into a four-part employment

services group Boyhood friends do not always turn out to be the best husiness partners but in the Netherlands Jelle Boelen and Teo Rasing provide positive proof that successful fast-growing companies can find firm roots in a 20-year-old

(riendship. Over the past to years the two men have built up an employment services group which regularly racks up annual growth rates of 40 per cent and more.

Their Amsterdam-based Vitae Group - which takes its name from the secood word of "curriculum vitae" - plans to venerate Fl 75m (\$47m) in sales in 1996, up from a projected Fl 50m-Fl 55m in 1995. Another of the company's goals is to launch its first national advertising campaign in newspapers and on radio. This will mark a departure from its usual policy of mounting advertising campaigns in the trade press and relying on referrals from pleased clients. The secret of their success in employment services - a

quintessentially Dutch sector with lots of competition and many short-lived ventures – is not at all straightforward. Ons reasoo why Vitae Group has survived and flourished while competitors have gooe out of business is that it has specialised in selected niches. such as those for engineers, accountants and advertising executives. Another is the company's ability to foster an

exciting climate of swift

But much of the concern's ss is the result of the simple chemistry which exists between two men who have been friends for 20 years, since they met at the age of 15 at a billiards club. The two partners complement each other, with Mr Boelen looking after the commercial side while Mr Rasing keeps watch over the group's internal



Teo Rasing: Vitae Group is no ordinary employment agency

eye-to-eye in ways that elude most many married counles. "If we were to go out and buy a car together, we'd quickly agree not only on the type of car but the colour, too," Mr Rasing says.

Their husiness partnership began in 1986 with the establishment of their first company, Inter AT. Just three years out of technical college, Mr Boelen and Mr Rasing decided to set up a project engineering agency for "automation and technology". hence the name. Their idea was to offer architectural firms, contractors and other technical companies the chance to hire trained specialists on a short-term

The decision to branch out was driven by the demands of clients

project basis. inter AT, which is still thriving today, is decidedly not a temporary employment agency in the usual sense. The difference is that we're highly involved with the project and that we feel

responsible for it." Mr Rasing notes. "We can be involved in all stages, from supplying draftsmen for the drawing board operations to supervisors on the

In 1989, Inter AT's two founders decided to branch out in two new directions in job placement and temporary employment. The impetus grew partly out of demand from existing clients who began approaching the company for secretaries and bookkeepers as well as for technical staff. "We soon found ourselves in the position of being bakers who also sold cars on the side," Mr Rasing remembers. "We soon thought Let's do this properly'.

The result is a group with four operating companies which have regional offices in Utrecht and Zwolle as well as Amsterdam.

Besides Inter AT, the Vitae Group comprises Nouveau Métier, a placement bureau for sectors such as insurance and advertising; Tools, a emporary employment agency for plumbers and welders; Vitae Secretarieel and Vitae Financieel, temping and employment agencies for cretaries, bookkeepers and other financial staff

respectively. The group finds itself in a favourable husiness environment in the Netherlands, whose workforce has the world's highest percentage of temporary employees. On average around 2 per cent of employees are temporary compared with just 0.5 per cent in Germany,

where labour laws have hampered the sector's development. The Netherlands' higgest temporary staff and employment agency,

Randstad, ranks among the

world's top five. It was started

in the 1960s by another enterprising Dutchman, Frits Goldschmeding. Its turnover of more than Fl 4bn makes it 80 times larger than Vitae. To surviva in the home

territory of such glants. Vitae has purposely kept to its own niches and specialisations. It has also been careful in managing the financial side of its swift growth. "We still check every invrice," Mr Rasing says.

The group has a permanent workforce of 100, though tha number of people who find work through Vitae's four companies is far larger. Mr

Rasing, aged 37, is almost the oldest of them. "There's one member of staff who is two months older than I am," he

Despite recent expansion. Mr Rasing and Mr Boelen consciously try to hold on to the family feeling that has pervaded the closely-knit team. "I'd hate to go to an after-hours drinks party and see 10 to 15 people I didn't know. We make sure that when new people join us in the regional offices, we get to meet them at one of our twice-weekly management meetings."

■ Netzwerk Service: by Michael Lindemann

Network company with a national niche

Flexibility and national scope have helped Netzwerk Service to grow

Mr Joachim Röder could not have put up a better show of frenzied activity and dynamism if he had been asked to stage it for the benefit of a Hollywood director.

With his designer leather jacket draped over his chair. he was moving agitatedly up and down hehind his desk warning his representative in Berlin by phone of the pitfalls of Betriebsrate, the employees' councils which are the bane of every German manager but have played a key role in the country's post-war economic

"Well I've just about come to terms with the idea of a betrichsrat hut what I'm not going to permit is that people use it as an excuse just to travel around Germany checking on our operations nationally," he barked. "I'm not having any of these betriebsrat excursions.

Netzwerk Service, the Munich-based computer network company which Mr Röder co-founded in 1989 has grown at such a rapid rate that it now needs an employee council. In the past five years sales have risen from DM3m (£t.3m) to a forecast DMm501 this year. Mr Roder started with 77 employees and now has 700.
"I want to turn this into a

company with sales of DM750m, employing 1,500 people," is the first thing Mr Roder says after putting the

He has taken no holiday for six years and works 16 hours a day to mastermind a company which has 22 offices nationally and has installed telecoms and computer networks for clients as diverse as the Russian potice force and a German insurance company.

The former wanted 180 police stations across the Federation modernised. The latter needed 22,000 partable computers exchanged nationally and att the employees using them re-

"We are established and It's becoming easier to get clients," he says. "In fact, clients can't will deal personally with com-

keep away from us." Over half of Netzwerk Service's turnover comes from installing networks, a husiness which has been booming in recent years in Germany given the prospect of a liberalised telecoms market in 1998. Another 25 per cent comes from maintaining networks

and servicing computers. Netzwerk Service has created a niche for itself as the higgest of the smaller network companies: slimmer and more flexible than a Siemens but with a national reach which companies of a similar size do

Netzwerk Service's national scope, explains Mr Röder, is lucrative after-sales contracts



Joschim Röder: seeking greate participation from employees

under which the company is nbliged to have a network anywhere in Germany up and running again within four hours of

But Mr Roder, 48, says the company's success lies in having been able to turn the technicians who install the networks into managers and satesmen. "I think I've been able to teach them that wherever they go they must have the clieots' needs foremost in their minds." the cotrepreneur explains. "If we are installing a network for the client then we immediately ask him if he needs a new floor put in and do it for him. We also offer to put in a lighting system better suited to the needs of the new

network. To get home the point about customer care. Mr Röder has warned his employees that he

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service provided by the company. There have been relatively few, he adds.

Another vital ingredient of success is employee participa-tion, he says. Ideally he wants Netzwerk Service to become a joint stock company with employee participation. Although he has so far been unable to persuade the company's managers to invest in the company, Mr Röder nonetheless offers successful employees up to 30 per cent of the profits. This year he will pay out DM2m of premiums to the company's best employees.

Does he sometimes worry that he may be overreaching computer producer where Mr Röder worked for several years before starting Netzwerk Service suffered just such a fate.

Mr Roder, whose father owns a chemicals company which is one of the hundreds of thousands of Germany's mediumsized companies or Mittelstandler, has a quick answer.

The secret is to remain small enough where one person can still drive the whole thing body and soul. Never do what they do," he says, referring to the likes of conglomerates like Siemens. "Always remain a Mittelständler.

Netzwerk Service's main problem, Mr Röder says, is raising new capital. The company has few assets which it can use as collateral to secure money from the banks and Mr Roder complains that there are too few sources of venture capital, a common grievance io

Netzwerk Service is leaving no stone unturned in its efforts to remain flexible and improve performance. When Mr Röder needed a licence for a new Israeli telephone system recently be knew the German authorities would take weeks

process the application. Instead he flew to England where it took just one week to do all the necessary paperwork. One of the advantages of Europe's three-year-old single market is that a licence issued in any one of the 15 member states automatically has to be accepted by the others. He has vowed he will do the same again in future if the German authorities are too slow.

ATC: by Tim Burt

Anzac spirit suits City customers of some of the UK's largest per-

Graduates keen to earn money for travel constitute a high quality workforce

New Zealand recruitment specialist Ruth Foreman first arrived in London six years ago she was looking for husiness opportunities not work. She saw rich pickings arising from what she perceived as the mixed quality of Britain's personnel and temporary staff agencies.

"Few consultancies were delivering a high standard of service and there was little loyalty among client husinesses, she says. Her disappointment with the City's existing personcalibre of the temporary employees they offered to their clients, so she decided to import her staff.

In 1990, the Australasian Temp Company opened its doors promising clients "temping with a new accent". Its workforce was made up of young Australians and New Zealanders keen to meet the demands of the London labour market.

The group satisfies UK law hy declaring itself an equal opportunities employer, hut Ms Foreman is unashamedly partisan when extolling the virtues of the Anzac work ethic.
"In Australia and New Zea-

land service is seen as an art and profession. Our people have a reputation for flexibility and a 'can-do' attitude." says Ms Foreman. She believes this approach is uncommon in Fortunately for the company,

Its arrival coincided with a

shift by many City institutions the strong links enable the from permanent to temporary or short-term contract staff. According to the Chartered

Institute of Marketing the UK is following in the footsteps of the US, where a quarter of the workforce work on a temporary hasis or as part-timers, freelances or consultants. Temporary staff, who now form approximately 1 per cent of the UK workforce, could represent 10 per cent by the turn of the

century, the institute says. ATC claims it can meet that demand by supplying a steady stream of recruits from New Zealand, where Lampen Group - its parent company - has already become the country's largest privately-owned personnel consultancy.

Ms Foreman, a former gen-

London subsidiary to recruit the best candidates before they even leave New Zealand.

The company also relies on a steady stream of visitors, who put down temporary roots in London to earn money for further travelling.

This semi-nomadic Australasian workforce, mostly comprised of young graduates, can take advantage of UK immigration regulations to work for up to two years if they are aged between 17 and 27. They can stay for longer still if they have grandparents residing in

These people are grateful to be earning British pounds rather than spending their New Zealand savings," Ms

Foreman adds.

sonnel groups. CRT for examthe raw material for ATC, ple saw operating profits jump which has won a strong followlast year from £3.7m to £6.7m ing among such blue-chip City of London clients as UBS. amid strong demand for com puter-literate staff. Credit Suisse First Boston and the London International

Financial Futures Exchange. The promise of relatively cheap labour, from often overqualified graduates, is attractive to these clients. It has proved very lucrative for ATC. Last year the company's turnover rose 55 per cent to about £5m and operating margins reached 10 per cent.

That growth should continue as the Chartered Institute of Marketing predicts, demand for temporary and short-term contract workers continues to grow at 10 per cent a year.

The potential of ATC is demted by the recent growth

Similarly profits at Reed Executive grew from £665,000 to £6.4m as its temporary employee husiness increased by 500 per cent.

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The financial equation. behind that growth is fairly simple. As the middlemen in temporary recruitment, agencles such as ATC receive a fee from clients and a cut of the hourly wages paid to tempo-

Typically ATC charges £12 an hour for supplying a worker to a blue-chip client. in turn it pays the temporary employee between £8 and £9 an hour in clients pay ATC two weeks in arrears. So the agency has to pay its staff wages from cash balances ranging from £50,000

to £80,000 a week. The skill of entrepreneurs such as Ms Foreman is to manage the cash to fund that wage hill. They must also invest in marketing to woo new corpo rate clients and training facilitles to improve staff skills. There's no doubt we can manage that challenge and we've never once gone into overdraft," she says

Although ATC believes its model would work elsewhere in the UK, and possibly in other parts of the Englishspeaking Commonwealth, it is

plans on London. "This is a fast-growing industry, particularly in the legal and financial sectors," Ms Foreman adds. "We see 10 years of further growth ahead,

concentrating future growth reditor wh and that's just in the City."

■ Buffalo Grill: by Andrew Jack

French palates adapt to American steaks

A shift by many City institutions from permanent to temporary or short-term contract staff suited ATC

Christian Picart has sold American eating habits to the conservative French public

Setting up US-style steak houses in France, which sees itself as the home of fine cuisine, might seem foolhardy. But it is a formula which has worked extremely successfully for Mr Christian Picart.

Nestling intriguingly alongside the compute software groups and other fast-growing European companies producing more abstract products and services. Buffalo Grill restaurants are delivering steaks and fries to some 14m French customers a

Fifteen years after he opened his first branch in 1980, Mr Picart oversees a chain of nearly 130 restaurants employing 2,600 people from his office in Arainville to the south of Paris.

Last year he reported sales of FFr1bn (£130m) and net income of FFr50m from the 87 restaurants he controls directly. A further FFr400m in turnover was provided by Buffalo Grill's 40 franchise holders

"If you had asked me in 1980 I would never have imagined that I would be running 130 restaurants today," he says.

Fifteen years before that, he had not evan realised that he would be spending most of his working life in the country of his birth.

Mr Picart believes that one of the secrets of his success has been that you have to know a country - in this case the US - to sell its lifestyle. He was born and brought up in France, in a family which ha

describes as "fairly poor". After completing his military service he emigrated first to Canada and then the US during the 1960s. He says he had every intention of staying there. He lived in Palm Springs and then San Francisco, working in a variety of restaurants - a number of which were French and in all sorts of jobs.

including that of a waiter. "I am more American than an American," he says. "There are real possibilities to earn money in the US. I found it marvellous. It took me two years to re-adjust when 1 returned to France."

He came back in the late 1960s, driven by the economic demands of his family. First he opened a dry-cleaning business. Then in 1974 he opened a motel south of Paris with what he calls "a little bit of Club Med style". This included a swimming pool and tennis courts.

The venture still performs well although Mr Picart changed the name to respond to French prejudices that all motels are cheap and

His real long-term interest was the food business and he was eager to return to his preferred sector. The concept of Buffalo Grill restaurants which he developed is unashamedly North American from the Wild-West-style ttering spelling out the name of the chain to the logo representing booked horns

which surrounds it. The food is also unmistakeahly American. "We have every type of meat you can imagine," he says. The wine list features Californian vintages, although - in a on to the surroundings some French varieties are

also on the menu. Financed largely internally with help from an associate and then from the Total Group, Mr Picart has built up the chain around the idea of leasing large sites by main roads on the periphery of towns

It took three years before he was ready to open the second restaurant in 1983. But then the pace accelerated quickly. Mr Picart says that in the last three years Buffalo Grill has set up abont 20 new restaurants every year.

Apart from a superiority of attitude from Parisians towards many US products and services. Mr Picart says he has

nationalist prejudice against his chain. Striking farmers who had caused problems for McDonald's, passed by one of his restaurants without

His restaurant in Bobigny, a long-standing strenghold of the French Communist Party, is also thriving despite his initial reservations at opening an outlet there. The ideology of the left is

not to denigrate US culture," he says. "In general the French react very positively to the idea of American food despite what one might think." He does concede that the

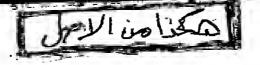
quality of service in the US is very different to that in France. "It is ons thing we have imported." he says,

his staff and applying his personal experience on the western side of the Atlantic to the French restaurant trade. Mr Picart says that he currently has his eye on opening a further 30 to 40 sites within France in the

medium-term. He is also beginning to look further afield, and expects from next year to start setting up restaurants elsewhere in Europe: notably in Germany,

Spain and Belgium. Meanwhile, his relatively low profile - he says he has never before given an interview to a journalist - may have to change. Mr Picart is considering seeking a quotation on the French stock





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This is the first time the project to identify 500 dynamic entrepreneurs running medium-sized European companies has yielded useful results.

Though it has not produced a comprehensive list of the continent's most dynamic entrepreneurs, the research has created a database for further research and thrown up some surprising findings.

The research set out to identify a group of the fastest growing entrepreneurially-led companies in Europe. The intention was to complete the search with face-to-face interviews with 500 of the fastest growers, conducted by Ernst & Young, the accounting firm.
The project started late last

year with IP Strategies of Brussels, a consulting firm, search-ing through the databases of Dun & Bradstreet and other providers of European company information.

This identified about 80,000 companies that could demonstrate growth in employment or sales between 1989 and 1994. IPS applied an objective mea-

surement to filter the sample further. This was a formula created by David Birch, a leading analyst of entrepreneurs in the US, combining the absolute growth in the employment of a company with the relative growth. Using the Birch formula IPS chose about 6,800 of the companies from its first

search of the databases. The researchers then made 16,000 phone calls and sent 5,500 faxes to this group asking for more information. As a result, they selected about 1.000 companies that were the most rapid growers and which were prepared to co-operate

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IPS reduced this sample by 100 companies hecausa the Europe Commission, one of the key funding partners in the study, was only interested in companies that started in 1989 with fewer than 500 employees. The group of 100 entrepreneur ially-led companies that were excluded created a net 50,000 jobs between them in the five years to 1994 in spite of the

Over the summer teams within Ernst & Young's national operations in each European country started interviewing key individuals within the companies identified by IPS.

This has taken more time than any of the partners had anticipated. The results of the face-to-face interviews are being gathered by EIM, a small husiness research and consultancy firm in the Netherlands.

The findings of this study form the basis of papers being presented and discussed in a conference in Ghent today and

20%

15%

Peoples Phone: by Tim Burt

Former minnow may pursue a listing

Peoples Phone operates on low profit margins and high volumes of business

Mr Charles Wigoder, the 35-year-old chief executive of Peoples Phone, rapidly unpacks a new mobile phone and turns it over in his hands. Standing in the loading bay of the company's north London service centre, he says: "We think this will be a best-seller

it's a useful lifestyle tool." Rapidly increasing sales of products of this kind have transformed Peoples Phona from a minnow in the telecommunications industry into one of Britain's largest mobile phone distributors and service Since 1990 pre-tax profits

have risen steadily. They reached £6.52m in the 12 months to October 31 last year. Sales more than doubled to £118.5m in the same period. However Mr Wignder admits

that net margins are thin currently about 5 per cent and that the business relies on volume growth and taking market share from competitors such as Cellnet or Mercury's One-to-One. It would be churlish to attri-

bute tha success at Peoples Phone solely to its ability to ride the wave of increasing customer demand for mobile

Mr Wigoder, a former execu-The privately-owned company has won about 10 per tive at Carlton Communicacent of the UK market by offertions, claims proudly: "We are ing costomers a guide through the most efficient operator in the maze of phone networks, the marketplace and there's a tariffs and products available. lot more growth to go for." It has established a significant Given its growth aspirations, Peoples Phone admits it would presence in the high street by increasing its retail outlets

be surprising if It did not float from just four at the start of on the stock market or seek a last year to 160, while also merger partner to fund future building a full service capacity developments. on the Celinet and Vodafons

To devalop this business there must be a likelihood that

we will come to the market to fund operations which the current balance sheet could not susizin," says Mr Wigoder.

The company's plans include proposals to establish a presence on the "fixed wire" network. It intends to challenge BT and Mercury for a place among the suppliers of commercial and domestic telephone services.

The only potential brake on Peoples Phone's growth is the

cash-hungry nature of the business. The company needs deep pockets to fund investment in its infrastructure and subsidise the cost of acquiring handsets from manufacturers Companies like Peoples Phone burn cash because they

have to sell mobile phones as loss leaders. A typical handset could sell for £10 in a shop, but it may have cost the retailer as much as £400 to acquire from the manufacturer.

Peoples Phone has to recover that investment from the customer through line rentals and call charges over a 12-month

To ease the pain of selling handsets at a loss, the company capitalises the cost of obtaining new subscribers and writes it off over three years. At the end of that period, Peoples Phone expects that about 50 per cent of the subscribers will still be under under contract and paying the charges which deliver profits.

Most of those customers join

Peoples Phone after visiting one of its retail outlets, which are being rolled out at an everincreasing pace.

To finance that expansion, the concern raised £12m in January 1994. Of this amount £2.5m was new equity and £9.5m was loan stock from issuing shares to Singer and Friedlander, the merchant bank which owns 35 per cent of Peoples Phone and which has invested some £20m in the

Peoples Phone further strengthened its balance sheet in December by drawing down a £15m term loan secured against the subscriber base of the company and by raising another £13.25m of equity.

The chief executive says the

And the second s

proceeds will be used for working capital and to repay loan

"We're positioning ourselves for the mass consumer market and that means taking market share from our rivals," he says. In the UK the mobile phone market grew to 3m subscribers last year, of which Peoples Phone boasts 350,000 custom ers. This year the total could reach 5m and is projected to be more than 15m hy the turn of

the century. Peoples Phone pursues a slice of that market not only from ita hrightly-coloured showrooms hut also the call service centre at its new headquarters in north London. Officials there use a sophisticated computer system to monitor call charges and invoicing, and are reminded of any calls waiting by a ceiling-mounted electronic display.

Mr Wigoder says the speed and efficiency of the system and its staff help to make Peoples Phone one of Britain's fasteet-growing non-quoted This is a customer-led busi-

ness and they are interested only in whether the phone works or not," he says. make sure it does."



■ Telepizza: by Tom Burns

Fast food means fast growth

Telepizza brought an old concept to a new market and ploughed profits back into growth

Telepizza realised before its competitors that Spain was changing rapidly. Gone were the days of slestes and elaborate family meals. Fast food was what Spantards wanted and needed.

The company was founded in 1988 as a single pizza . parlour offering home north Madrid neighbourhood. It now has nearly 200 centres spread out across 120 Spanish towns and cities.

This year Telepizza expect to post consolidated profits of more than Pta300m (£4m). more than double the Pta375m reported last year. It forecasts sales of some Pta19bn for 1995, up from 1994's Pta12.3bn. The market was zero when

we started," says Mr Jose Maria Serrano, Telepizza's communications chief, "but there was a terrific opportunity". Mr Leopoldo Fernandez Pujals, the company's founder, spotted the gap in the market. He

owns 40 per cent of Telepizza's shareholder capital and was its chairman until a recent boardroom coup.

Mr Fernández was formeriy an executive with the healthcare multinational Johnson & Johnson. He knew a lot about marketing and consumer fads and nothing at all about fast food. But be knew what the Spanish public was prepared to buy. When he came across pizza home deliveries during a stay in the US he had found the product he was looking for.

Telepizza now has a 54 per nt share of the pizza home deliveries market in Spain. Its success is as much the triumph of a concept as It is of a product.

understood that Spain had undergone a profound sociological change that had brought young mothers out of the kitchen and into the workplace. And office workers in Spain. like everywhere else. had begun to eat at their

Home deliveries, as opposed to office deliveries, make up the bulk of Telepizza's business. They are ordered both by children battling with their homework while their

parents are still at their jobs or by exhausted parents staggering home late because office hours in Spain can

stretch into the night. Telepizza also understanda that although Spaniards have belatedly come round to the concept of fast food, the domestic culture remains imbued with the tradition of good bome-made cooking. This means that the company has to take special care over the quality of its product - fresh ingredients are delivered daily - and over the amount of choice it offers its customers. After pioneering pizza home

deliveries. Telepizza has stayed ahead of its competitors by introducing the do-it-yourself pizza; chents can summon up literally thousands of permutations of the product's 15 basic ingredients. Its latest success has been a Tex-Mex pizza called the Jalisco, dreamt up hy its consumer research department.

The corporate culture and growth strategy are no less important. Telepizza helieves in decentralisation and cutting out bureaucracy. This ethos has set the tone of its staff relations and franchising. Telepizza has succeeded in

creating a corporate culture and with it an expansion strategy that has multiplied its rewards. Employees who deliver pizzas by motorcycle within half en hour of receiving the order are, in the company'e parlance, autonomous businessperale responsible for their own slice of the pizza market. These employees are allotted a specific area. It is up to them to develop a relationship with their clients

Spurred on by sales ncentives and bonus packages Telepizza's representatives time promoting the company in their allotted area as they do delivering its products to

About half the 195 Telepizza centres in Spain are franchises. The company believes this mix is the right one and that further franchises as it expands will, for the time being, be the property of the existing 50 or so franchise owners.

"For a franchise system to work you have to have franchisees who love the commeny and what it produces," says Mr Serrano. These are exactly the sort of people that we have got now



with us." Telepizza has pursued a strong investment policy, ploughing Ptal 3bn into new centres and equipment last year. It will invest a further Pta1.5bn this year.

and we want them to grow

One reason for the boardroom revolt thet forced Mr Fernández'e resignation in October was that other shareholders were clamouring for dividends and objected to

was masterminding. Firmly established in Spain Telepizza has also tested foreign waters again through a mix of directly-owned units and franchises and has set up around 50 centres abroad. It is operating in Poland, Portugal, Greece and Belgium a well as in Mexico, Chile and Colombia. But the focus is on Spain. Its home market is far from saturated.

the drive for expansion that he

BMR: by John Murray Brown

Creditor who saw his chance to profit

How a small Donegal-based healthcare company is blazing a trail to the US

The windswept wilderness of northern Donegal might seem an odd place to find one of Europe'e most dynamic companies. But a small assembly unit making a muscular stimulation product for the leisure and healthcare sectors is blazing a trail from a modest site in the liderás na Gaeltacht, the industrial zone run by the development authority of the irish-speaking region.

BMR Teoranta - to give its irish language corporate title has quietly established a niche market for itself, making products for muscular therapy and body toning using the Slendertone hrand name which it bought in 1989.

Mr Kevin McDonnell, the

on a given source of finance

chairman, chief executive and owner of 25 per cent of the company, is a little vague about the source of his success Part of it, he says, is the strong work ethic in the area. He points out that half of his employees are from Glaswegian families - migrants who have returned to the north-west corner of Ireland

bringing with them Scottish attitudes of thrift and industry.

Mr McDonnell himself fell into the job by accident BMR, originally a UK company producing the Slendertone range from Ashford in Kent, relocated in the 1960s to take advantage of the Shannon free

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zone. However, the company eventually went into receivership. Mr McDonnell, then a creditor of BMR, approached tha receivers to see what he could salvage. When he looked at the business plans, he spotted his chance.

"I thought it was a bit odd that the company could go out of husiness and yet, according to its business plan, it was capable of a 20 per cent return A chartered accountant hy

training - he was articled to Lord Parkinson, the former Tory minister - Mr McDonnell had a hunch he could turn the company round. His todement was well-founded. He bought the company for £300,000 in 1989 and BMR sales are now growing at around 50-60 per cent a year.
The medical products busi-

ness, where growth is less dramatic but margins are more attractive, is seen as the source of the company's future earnings. In the US alone the market for muscular rehabilitation products has jumped from \$88m in 1991 to more than 200m this year.

"We have a completely revitalised product range, all of which has been developed and all of the cost of which has been completely written off," says Mr McDonnell

Half of the original investment was provided by the Gaeltacht office in an unusual arrangement whereby the authority bought the assets off the receivers and sold them to the company. Last year BMR brought in

the local Paribas venture capi-

tal company – Smurfit Paribas

as a small equity partner.

Smurit has two non-executive

directors on BMR's board. The

plan is to engage an interna-tional shareholder before eventually going public. "Everything we have done since I took over has been geared to its budget on advertising costs. getting us ready for flotation,"

Many BMR products are not available over the counter. The company is looking at special advertising on video shopping channels. As Mr McDonnell puts it "It's fine if it's an off-

The company

sees the higher-margin medical products business as the source of future earnings

the-shelf product. But you can't expect Boots to stock our product if they have to spend 15 minutes explaining how it works every time they have a prospective costomer. In the US companies like

BMR are prohibited from selling medical products over the counter. In Europe, the situs tion is slightly different. BMR, for example, is starting to sell its consumer range in Carrefour superstores in France and its range is svailable in pharmacies. However in 1998, under a European Union ruling similar to US laws, companies that sell such products will have to re-equip their factories to meet

new health standards. T believe it will make life easier for us. I know it sounds a bit smart, but our products

industry standard," says Mr McDonnell.

Currently BMR spends half

The company is also spending around £800,000 a year on research and development. quite a large sum for a company of its size. Accounting policy is conservative. "We don't capitalise any R&D. It'e written off the month the expenditure takes place. The idea of tying up assets in your balance sheets reflecting your designs or your trademarks is just fluff. I know others disagree, but I can't go to the bank with it and I can't raise any money with it. I'd only be fooling myself," he says.

The company is best known for its Slendertone product line a series of muscle stimulation equipment used in the cosmetic and personal care market. On the advertising front. the company is talking to Twiggy, the 1960s model, about an "infommercial" to promote the product,

But Mr McDonnell is more excited about the prospects for the medical side, particularly in the US where increasingly healthcare is being done off eite" at home or in therapy

Only last month BMR concluded a deal with the Kaiser group of hospitals in California. BMR will supply an incontinuoce product under a rental arrangement, also providing servicing and direct patient aftercare. Mr McDonnell is keen to

point out that "few people realise that the sales of adult diapers in developed countries exceed those of baby diapers". The market for adult dispers is now worth \$1.3hn a year.

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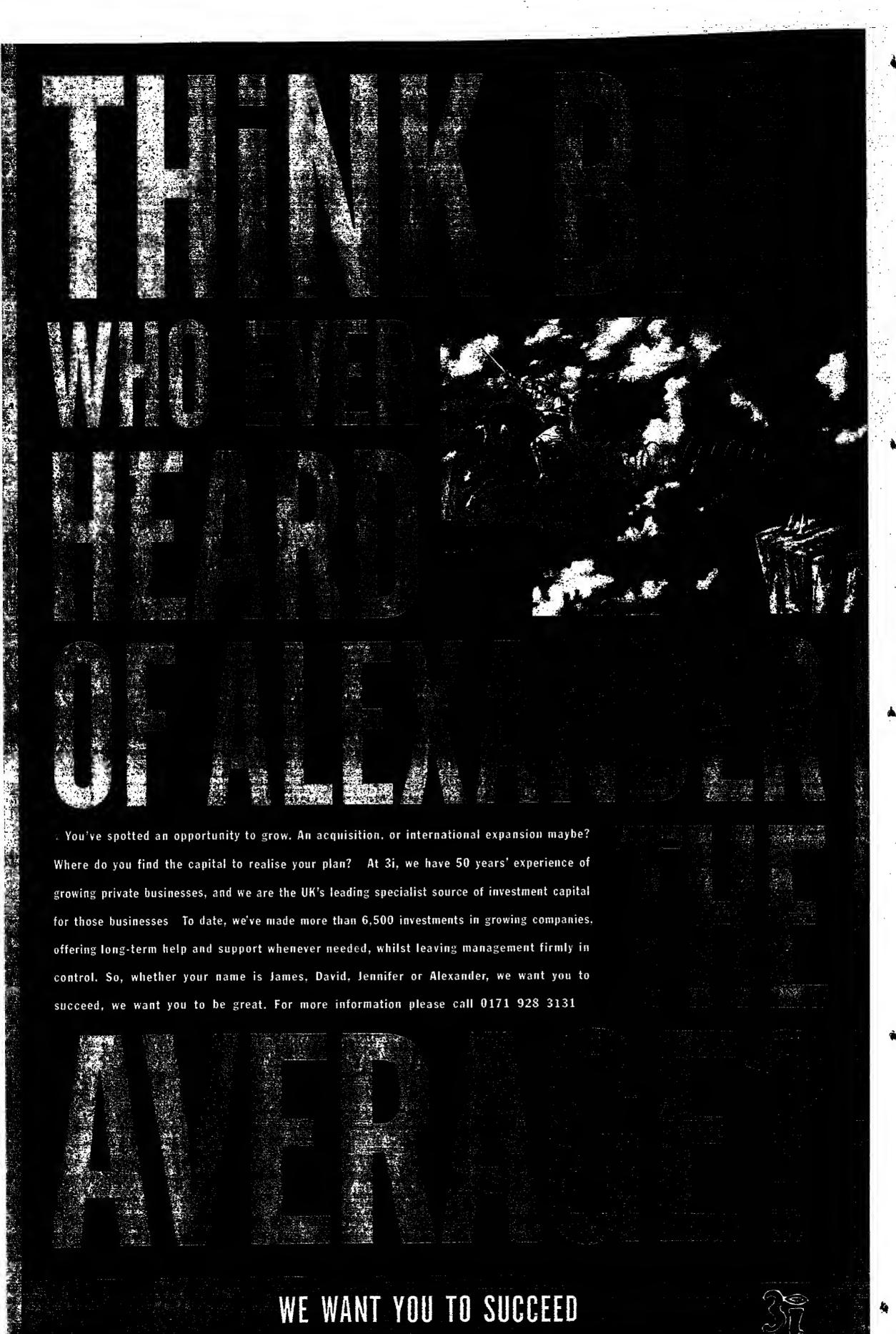
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From the beginning of "Europe's Dynamic Entrepreneurs" survey, Korn/Ferry Carré/Orban has supported and played its full part in this research project.

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welfare reform

